

Rapid-American Corporation Annual Report -- 1982

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SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

FORM 10 - K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1983

Commission File number 0-7423

R A P I D - A M E R I C A N C O R P O R A T I O N (Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

15-0587446
(I.R.S. Employer
Identification No.)

888 Seventh Avenue, New York, New York
(Address of principal executive offices)

10106
(Zip Code)

Registrant's telephone number, including area code: 212-621-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on
which registered

7-1/2% Sinking Fund Subordinated Debentures, due May 15, 1985	}
6% Sinking Fund Subordinated Debentures, due August 15, 1988	
7% Subordinated Debentures (1969 Issue), due May 15, 1994	New York Stock Exchange, Inc.
7% Subordinated Debentures (1972 Issue), due May 15, 1994	Pacific Stock Exchange, Inc.
12% Sinking Fund Subordinated Debentures, due January 15, 1999	Cincinnati Stock Exchange, Inc.
10-3/4% Sinking Fund Subordinated Debentures, due December 1, 2003	
10-3/4% Sinking Fund Subordinated Debentures, due October 1, 2004	
11% Sinking Fund Subordinated Debentures, due October 1, 2005	
10% Sinking Fund Subordinated Debentures, due August 1, 2006	
15% Sinking Fund Subordinated Debentures, due November 15, 2008	Pacific Stock Exchange, Inc.
Redeemable Debenture Purchase Warrants, expiring May 15, 1994	Cincinnati Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

State the aggregate market value of the voting stock held by non-affiliates of the registrant.

None held by non-affiliates.

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practical date.

<u>Class</u>	<u>Outstanding at April 15, 1983</u>
Common Stock, par value \$.01 per share	2,435,607 shares

Documents incorporated by reference.

None

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Introductory Note

Registrant, a Delaware corporation formerly named Kenton Corporation ("Kenton"), is the successor to the former Rapid-American Corporation, a Delaware corporation ("Old Rapid"), which was merged (the "Merger") into Registrant on January 31, 1981 at which time the name of Registrant, as the surviving corporation of the Merger, was changed to "Rapid-American Corporation." As a result of the Merger, Registrant became a privately held corporation owned by Riklis Family Corporation and American Financial Corporation ("AFC"). Meshulam Riklis, Chairman of the Board, President and Chief Executive Officer of Registrant, and two trusts for members of Mr. Riklis' family are the sole stockholders of Riklis Family Corporation. See Note 2 to Financial Statements for a description of the terms of the Merger. Although under applicable state law, the Registrant (i.e., the corporation formerly named Kenton) is the surviving corporation of the Merger, for accounting purposes Old Rapid has been treated as having purchased Kenton. All references to "Rapid" in this report include both constituent corporations to the Merger (i.e., Kenton and Old Rapid), and all references to Kenton herein are to Registrant prior to the Merger.

PART I.

Item 1. Business.

GENERAL

Rapid is engaged (a) through its subsidiary, McCrory Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McCrory"), in retail merchandising, (b) through its subsidiary, Schenley Industries, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "Schenley"), in the production, importation and sale of alcoholic beverages under various brand names, (c) through its subsidiary, McGregor-Doniger Inc. (which, together with its divisions, is sometimes referred to herein as "McGregor"), in the manufacture, distribution and sale of a variety of consumer products and (d) through its subsidiary, Shenandoah Corporation ("Shenandoah"), in operating a thoroughbred race track.

Rapid has agreed to sell to stockholders and affiliates Melville Knitwear Co., Inc. ("Melville"), American Recreation Group, Inc. ("ARG") and Plastic Toy and Novelty Company ("Plastic Toy") (see Item 13 - "Certain Relationships and Related Transactions", paragraph 5).

At January 31, 1983, Rapid and its subsidiaries employed approximately 40,000 persons.

FINANCING ARRANGEMENTS

Working capital requirements are satisfied primarily from operations and short-term borrowings. Reference is made to Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 3 and 6 to Financial Statements for a description of various financing arrangements of Rapid and its subsidiaries.

SEGMENT INFORMATION

The following table sets forth the identifiable assets of each major business segment of Rapid at January 31, 1983, 1982 and 1981:

<u>IDENTIFIABLE ASSETS</u>	<u>January 31,</u>		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Millions)		
Retail Merchandising:			
Lerner Stores	\$ 282.6	\$ 273.3	\$ 261.2
McCormick Stores	207.2	210.2	206.2
OTASCO Automotive and Home Accessories Stores	115.7	112.7	103.1
Others (including Britts Dept. Stores in 1981)	6.7	7.3	21.3
Alcoholic Beverages - Schenley	731.8	717.8	728.5
McGregor and others	81.3	116.7	114.0
Investments in Nonconsolidated Subsidiaries ...	35.7	33.8	35.3
Net assets held for sale to Stockholders and Affiliates	19.2	-	-
Other Corporate Assets	<u>111.5</u>	<u>92.3</u>	<u>92.1</u>
Total	<u>\$1,591.7</u>	<u>\$1,564.1</u>	<u>\$1,561.7</u>

Net sales of foreign operations (principally in Canada), export sales, and sales to any individual customer, each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

The contribution of each of the major business segments to consolidated net sales and operating profit during the years ended January 31, 1983, 1982 and 1981 was as follows:

<u>Net Sales</u>	<u>Year Ended January 31,</u>		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Millions)		
Retail Merchandising:			
Lerner Stores	\$ 682	\$ 717	\$ 686
McCrary Stores	760	762	674
OTASCO Automotive and Home Accessories Stores	291	291	259
Others (including Britts Dept. Stores in 1982 and 1981)	8	34	50
Alcoholic Beverages - Schenley	599	604	693
McGregor and others	175	238	227
Operations held for sale to Stockholders and Affiliates	<u>56</u>	<u>-</u>	<u>-</u>
	<u>\$2,571</u>	<u>\$2,646</u>	<u>\$2,589</u>
Operating Profit (Loss)			
Retail Merchandising:			
Lerner Stores	\$ 72.9	\$ 90.0	\$ 83.3
McCrary Stores	48.2	50.7	43.4
OTASCO Automotive and Home Accessories Stores	20.9	16.5	18.0
Others (including Britts Dept. Stores in 1982 and 1981) .....	.1	(1.6)	(3.4)
Alcoholic Beverages - Schenley	69.8	40.9*	47.3
McGregor and others	15.4	16.2	(3.2)
Operations held for sale to Stockholders and Affiliates	<u>5.6</u>	<u>-</u>	<u>-</u>
	<u>232.9</u>	<u>212.7</u>	<u>185.4</u>
Unallocated Costs:			
Interest and debt expense	155.7	161.3	117.6
General corporate expenses	30.1	31.0	25.0
Other (income) earned at the corporate level	(12.0)	(10.6)	(6.3)
Equity in (income) of nonconsolidated subsidiaries, etc.	<u>(2.4)</u>	<u>(2.3)</u>	<u>(1.3)</u>
	<u>171.4</u>	<u>179.4</u>	<u>135.0</u>
INCOME BEFORE PROVISION FOR INCOME TAXES AND EXTRAORDINARY CREDIT	<u>\$ 61.5</u>	<u>\$ 33.3</u>	<u>\$ 50.4</u>

* After nonrecurring charge of \$6.3 million

RETAIL MERCHANDISING

At January 31, 1983, McCrory operated through its subsidiary, Lerner Stores Corporation ("Lerner"), 790 apparel specialty stores under the trade names "Lerner Shops", "Lerner" and "Jenny Lane", specializing in the sale of women's and children's apparel; through its McCrory Stores division ("McCrory Stores"), 718 variety stores under various trade names, including "McCrory", "McLellan", "H.L. Green", "J.J. Newberry" and "S.H. Kress"; and through its subsidiary, OTASCO, Inc. ("Otasco"), a chain of 284 automotive and home accessories company-owned stores and 341 associate stores serviced by it, all operated under the trade name "OTASCO Stores" and engaged in the retail sale of automotive and home accessories. Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments.

At January 31, 1983, McCrory and its subsidiaries employed approximately 32,000 employees.

Apparel Specialty Stores (Lerner)

Lerner sells at moderate prices, substantially all articles of women's and children's apparel, except shoes. For each of the three years ended January 31, 1983, the merchandise categories set forth below accounted for approximately the following percentages of total store sales of Lerner:

	Year Ended January 31,		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
Sportswear	33.3%	34.3%	34.1%
Dresses	16.6	16.5	16.5
Blouses	14.3	13.3	13.8
Coats and suits	11.2	10.7	9.3
Underwear and hosiery	11.1	11.1	11.6
Children's wear	8.0	9.0	9.6
All other merchandise	5.5	5.1	5.1

The following table sets forth, for the three years ended January 31, 1983, the number of stores opened, closed, and in operation at the end of each year and the approximate average net sales per store:

<u>Year ended January 31,</u>	<u>Stores opened</u>	<u>Stores closed</u>	<u>Stores in operation at year-end</u>	<u>Approximate average net sales per store*</u>
1981	89	9	717	\$1,009,000
1982	60	10	767	970,000
1983	33	10	790	868,000

* Excluding stores opened or closed during the year. The decline in the average sales per store is primarily due to the smaller size of new stores which have been opened in the last few years and decreases in comparable store sales.

The stores are located in 45 states, the District of Columbia, Puerto Rico and the Virgin Islands, with the greatest concentration of stores in California, Florida, New York and Texas. Lerner has actively followed the larger shopping center concept of retail distribution, where most of its stores which have been opened in the past 20 years are located. It is anticipated that approximately 30 stores will be opened in the year ending January 31, 1984.

The minimum sales area of any of the stores is approximately 1,600 square feet, the maximum sales area is approximately 24,000 square feet and the average sales area of all the stores is approximately 6,700 square feet; 451 stores have sales areas of under 6,700 square feet and 339 have sales areas in excess of 6,700 square feet. The stores to be opened will have an average sales area of approximately 5,000 square feet. Lerner maintains a program of modernizing its stores.

The home office, central buying office and distribution center are located in New York City. During 1983 the New York distribution center will be relocated in New Jersey. Other regional distribution centers are located in Atlanta, Georgia; Jacksonville, Florida; Chicago, Illinois; Pittsburgh, Pennsylvania; Los Angeles, California; and Dallas, Texas. Buying is directed centrally, with direct shipment of most merchandise from the vendor to the distribution centers. The greatest portion of the merchandise is purchased by the New York central buying office. Merchandise is also purchased through a buying office in Los Angeles. Sales promotion and advertising, directed centrally, are modified to meet local conditions. Each distribution center services and supervises the stores in its area.

Lerner does not generally enter into long-term purchase contracts nor does it manufacture the products it sells. No supplier accounts for more than 5% of Lerner's purchases.

Lerner participates in bank credit card programs and also offers twelve-month revolving charge accounts, with service charges at rates prevailing locally. At January 31, 1983, credit facilities were available in substantially all of the stores. Credit sales accounted for approximately 18% of net sales for the year ended January 31, 1983.

Lerner has an agreement with Citicorp Retail Services, Inc., pursuant to which it purchases and services Lerner's accounts receivable.

In common with many other retail businesses, the business of Lerner is seasonal, with sales and earnings concentrated primarily in the second half of the fiscal year ending on January 31.

Competition

Lerner is subject to active competition from other apparel merchandising chains and from so-called "discount" organizations selling wearing apparel, as well as from department stores, specialty shops, mail order houses and other retailers. The primary competitive factors are fashion, price and product assortment. Management believes Lerner is the largest retailing chain in the United States specializing exclusively in women's and children's apparel.

Labor Relations

At January 31, 1983, Lerner had approximately 11,500 employees, some of whom were employed part-time. Temporary employees are added during certain holiday seasons and the peak is reached during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 20 years. Collective bargaining contracts are in effect in 160 stores and six distribution centers covering approximately 3,000 employees in 13 states. Lerner has noncontributory pension plans covering eligible employees.

Property

Lerner's policy is to lease, whenever practicable, rather than own its premises. Most of the leases do not contain clauses authorizing cancellation by the lessee. At January 31, 1983, with the exception of four distribution centers, four store locations and parts of four others, each of which was owned, all premises were leased. Most of the store leases provide for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance, or both. The home office, central buying office and distribution center currently occupy approximately 395,000 square feet of office and warehouse space in New York City under a lease expiring in 2004. Lerner has sold a substantial portion of its leasehold interest in this New York facility in anticipation of its move to a new distribution center in South Brunswick, New Jersey. Lerner purchased the New Jersey distribution center containing approximately 362,000 square feet and anticipates entering into a sale and leaseback arrangement in 1983 (see Item 13 - "Certain Relationships and Related Transactions", paragraph 26).

McCrory Stores

McCrory Stores sells a broad mix of merchandise, including men's, women's and children's apparel, jewelry, hardware, home furnishings, piece goods, stationery, toys, toilet articles and candy. Restaurants or luncheonettes are operated in 430 stores. McCrory Stores also operates five free-standing restaurants. These restaurants and luncheonettes are an important part of McCrory Stores' business and over the years have been a significant contributor to operating results.

For each of the three years ended January 31, 1983, the categories set forth below accounted for approximately the following percentages of total store sales of McCrory Stores:

	Year Ended January 31,		
	1983	1982	1981
Apparel and accessories	29.4%	28.9%	29.5%
Hardware and home furnishings	14.8	14.5	13.6
Stationery	8.2	7.9	7.6
Toiletries and beauty aids	8.1	7.6	6.8
Restaurants and luncheonettes	7.3	7.9	8.6
Dry goods and domestics	7.0	7.4	7.5
Toys, games and books	6.6	6.8	6.0
Candy	5.2	5.1	4.5
Concessions	4.7	4.8	5.2
All other merchandise	8.7	9.1	10.7

The following table sets forth, for the three years ended January 31, 1983, the number of stores opened, closed, and in operation at the end of each year and the approximate average net sales per store:

<u>Year ended January 31,</u>	<u>Stores opened</u>	<u>Stores closed</u>	<u>Stores in operation at year-end</u>	<u>Approximate average net sales per store (1)</u>
1981	69 (2)	31	753	\$898,000
1982	18	42	729	980,000
1983	18 (3)	29	718	983,000

(1) Excluding stores opened or closed during the year.

(2) Includes 46 S.H. Kress stores acquired by McCrory Stores on January 1, 1981.

(3) Includes 14 Sterling stores acquired by McCrory Stores on February 1, 1982.

McCrory Stores operates in 37 states and the District of Columbia, with the largest concentration of stores in Pennsylvania, Florida, California and New York. Most of the stores are located in cities and towns having a population of less than 50,000, although the population of the geographical trading area served is generally from three to 10 times larger. A majority of the stores are located in downtown shopping areas; 307 are located in suburban and mall shopping centers and greater emphasis is being placed on suburban shopping centers in the opening of stores.

The management of McCrory Stores has adopted a policy of eliminating unprofitable stores based upon lease expirations, locations and other relevant factors. It is anticipated that during the year ending January 31, 1984, 15 to 20 stores will be closed and approximately 15 stores will be opened.

The minimum sales area of any store is approximately 1,800 square feet, the maximum sales area is approximately 72,000 square feet, and the average sales area of all stores is approximately 14,000 square feet; 271 stores have sales areas of under 10,000 square feet; 382 have sales areas from 10,000 to 24,999 square feet; 47 have sales areas from 25,000 to 40,000 square feet; and 18 have sales areas in excess of 40,000 square feet. McCrory Stores maintains a program of modernizing its stores.

McCrory Stores consists of four operating regions with divisional support functions. Buying is divided into the broad categories of apparel and variety. The main distribution and buying center for such merchandise is located in York, Pennsylvania, with a buying office for the west coast stores located in Los Angeles, California.

The main warehouse is maintained at York, Pennsylvania. In addition, relay stations are maintained at Albany, New York; Los Angeles, California; Stockertown, Pennsylvania; Glen Burnie, Maryland; Charlotte, North Carolina; Orlando, Florida; Columbus, Ohio; and York, Pennsylvania, to service the stores in their geographical area.

McCrory Stores does not enter into long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names. No supplier accounts for more than 5% of McCrory Stores' purchases.

In common with many other retail businesses, McCrory Stores' business is seasonal, with sales and earnings concentrated in the fourth fiscal quarter, ending on January 31.

Competition

The business of McCrory Stores is subject to active competition. The principal methods of competition are selection, price, quality, service and, to a lesser extent, style. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. McCrory Stores generally competes with other merchandising outlets selling comparable merchandise in the same geographical area, including chain, drug and other stores which offer a broad product mix, supermarkets, discount stores, hardware stores and numerous other independent local stores. While management of McCrory Stores believes that the stores are generally competitive with other stores in the areas in which they operate, increased competition has been experienced in recent years, particularly from certain nationwide mass merchandising chains.

Labor Relations

At January 31, 1983, McCrory Stores had approximately 18,000 employees, some of whom were employed part-time. During certain seasons as many as 3,000 temporary employees are added; the peak employment is reached during the Christmas season. There has been no substantial interruption or curtailment of operations due to labor controversies in over 10 years.

McCrory Stores has a noncontributory pension plan covering eligible employees.

Property

McCrory Stores' policy is to lease rather than own store premises whenever practicable. Most of the leases do not contain clauses authorizing cancellation by the lessee. At January 31, 1983, with the exception of one warehouse-distribution center, 40 store locations and parts of 17 others, each of which was owned, all premises were leased. A number of leases contain provisions for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance, or both. McCrory Stores owns its main warehouse and distribution center in York, Pennsylvania, which comprises approximately 795,000 square feet.

Automotive and Home Accessories Stores (OTASCO Stores)

OTASCO sells automotive and home accessories in its company-owned stores in the southeast and southwest United States, and, in addition,

supplies merchandise and merchandising aids to its associate stores which are owned by third parties in the same geographical areas.

Though many products are carried in open displays, self-service is not a feature of OTASCO Stores' business. The stores sell over 9,000 items of merchandise, including tires, batteries, auto accessories and parts, home appliances, sporting goods, hardware, garden supplies, tools and housewares. For the years ended January 31, 1983, 1982 and 1981, sales of major home appliances accounted for approximately 27%, 28% and 30%, respectively, of OTASCO Stores' total sales. Most of the company-owned stores maintain service centers for the installation of replacement auto parts they sell.

The following table sets forth, for the three years ended January 31, 1983, the number of company-owned stores opened, closed and in operation at the end of each year and approximate average net sales per store:

<u>Year ended January 31,</u>	<u>Stores opened</u>	<u>Stores closed</u>	<u>Stores in operation at year-end</u>	<u>Approximate average net sales per store *</u>
1981	7	2	266	\$713,000
1982	12	1	277	790,000
1983	9	2	284	810,000

* Excluding stores opened or closed during the year.

The locations of the company-owned stores are divided almost equally between downtown areas and urban and suburban shopping centers; the associate stores, with few exceptions, are located in smaller communities. OTASCO Stores is continuously engaged in modernizing older stores. In the opening of company-owned stores, greater emphasis is being placed on strip shopping center locations.

During the year ending January 31, 1984, it is anticipated that two company-owned stores will be opened and arrangements will be entered into for up to four associate stores.

Approximately 54% of total sales in company-owned stores are on credit, which are customarily secured by conditional sales contracts. In addition, all company-owned and most associate stores participate in bank credit card programs.

Otasco Credit Corporation ("Credit"), a wholly-owned subsidiary of Otasco, finances Otasco's receivables. Credit has a revolving credit agreement, expiring on July 31, 1984, with a regional group of banks in the aggregate principal amount of \$75,000,000, secured by all of the customers' accounts receivable purchased by Credit together with substantially all of Otasco's customers' accounts receivable. Otasco has a \$15,000,000 line of credit from the same regional group of banks. The aggregate permitted borrowings under Otasco's and Credit's agreements is \$75,000,000.

OTASCO Stores does not enter into long-term purchase contracts, nor does it manufacture the products it sells. A limited use is made of private brand names. No supplier accounts for more than 10% of Otasco's purchases.

Rapid Muffler, Inc., a wholly-owned subsidiary of Otasco, sells and installs car exhaust systems and shock absorbers. At January 31, 1983, seven shops were in operation (three in Tulsa, Oklahoma and four in Wichita, Kansas). It is anticipated that seven shops (six in Oklahoma City, Oklahoma and one in Tulsa, Oklahoma) will be opened during the year ending January 31, 1984.

Competition

The business of OTASCO Stores is subject to active competition from mass merchandisers, tire company outlets, various department stores, major appliance stores, variety stores, home and auto stores and sporting goods stores. The primary competitive factors are price, location, selection and service. Management believes that OTASCO Stores is competitive with other stores in the geographical areas in which it operates.

Labor Relations

At January 31, 1983, OTASCO Stores had approximately 2,600 employees. During certain seasons temporary employees are added and the peak employment is approximately 3,600 during the Christmas season. There has been no substantial interruption or curtailment of operations due to labor controversies in over 10 years.

OTASCO Stores has a noncontributory profit-sharing retirement plan covering eligible employees.

Property

OTASCO Stores' executive offices and warehouse, located in Tulsa, Oklahoma, occupy a 500,000 square foot facility (which has been leased through 2003) situated on a 28-acre site which provides for future expansion. This facility includes approximately 61,000 square feet of offices. OTASCO Stores' office and warehouse in Little Rock, Arkansas containing 129,400 square feet of floor space, including loading docks, are leased through 1990; its warehouse and offices in Atlanta, Georgia occupy a building, which has been leased through 1989, containing 148,000 square feet of floor space, including loading docks; and its office and warehouse in Meridian, Mississippi containing 166,400 square feet of floor space, including loading docks, are leased through December 1987. Public warehouse space is leased in major market areas for short periods as seasonal demands require.

Otasco's policy is to lease rather than own store premises whenever possible. All company-owned stores, except one, are in leased locations and in some instances are subject to more than one lease. Most of the leases do

not contain clauses authorizing cancellation by the lessee. Most of the downtown store leases are at fixed rentals, while most of the shopping center leases provide for additional rentals based on percentages of annual sales. A few leases require the tenant to pay property taxes or insurance, or both.

Canadian Operation

Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments. Gault leases, through 1995, a 96,000 square foot warehouse in Vancouver, Canada, partially used for manufacturing operations. At January 31, 1983, Gault employed approximately 100 persons.

S. Klein and Britts Department Stores

See Note 8 to Financial Statements.

Miscellaneous

Substantially increased construction costs (including interest), zoning restrictions and ecological considerations, possible changes in shopping habits in the event of increases in energy costs or possible shortages and certain other factors affecting the development of regional shopping centers have had, or may have, an effect on the rate of construction and expansion of large shopping centers and have resulted in significant increases in shopping center rentals. These factors may affect the nature and rate of expansion of certain McCrory operations, particularly Lerner.

ALCOHOLIC BEVERAGES

Schenley is engaged in the production, importation and sale of alcoholic beverages, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials and specialties.

In the year ended January 31, 1983, the largest contributor to Schenley's operating income was Dewar's White Label Scotch whisky. Dewar's White Label Scotch whisky has been distributed under contracts which have been renewed from time to time since 1936, the latest of which extends to March 31, 1985.

Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases overseas, distribution rights.

Domestic Alcoholic Beverages - Brands of domestic whiskies owned by Schenley include Ancient Age, Ancient Ancient Age (these trademarks have been licensed), J. W. Dant, I. W. Harper and Old Charter bourbon whiskies and George Dickel Tennessee whisky. Schenley's principal brands of blended whiskies are Schenley Reserve and J. W. Dant. Schenley owns several brands of domestic gins (including Schenley and J. W. Dant), brandies (including Coronet and J. Bavet), vodkas (including Samovar, Schenley and J. W. Dant), DuBouchett cordials, Cocktails for Two and other prepared cocktails and other domestic spirit beverages. Schenley owns the Dubonnet brand in the U.S. and owns and distributes Cruzan, Old St. Croix and Ron Carioca rums from the Virgin Islands.

Imported Alcoholic Beverages - Brands of imported beverages owned by Schenley or its foreign affiliates include J. W. Dant and Park & Tilford Scotch whiskies; MacNaughton, Grande Canadian and J. W. Dant Canadian whiskies; Ole tequila; Fratelli Lambrusco and Siglo wines and Cruz Garcia Real Sangria. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include Dewar's White Label and Dewar's 12 Scotch whiskies, Glenordie single malt Scotch whisky and Peter Dawson "Special" Scotch whisky; OFC Canadian whisky; Power's Gold Label Irish whisky; Mateus wine (see Item 3 - "Legal Proceedings"); the Stock line of vermouth, brandy and cordials; Asbach Uralt brandy; Charles Heidsieck champagne; Lillet aperitif; and Joseph Drouhin, Fontanafredda, Hugel, La Cour Pavillon, Lamberti, Melini, and Delas Freres wines. The earliest expiration date of any agreement for distribution rights in the United States is March 31, 1985 and the latest expiration date is September 24, 2003.

The following table sets forth the approximate percentage of total case sales represented by the principal categories of alcoholic beverages sold by Schenley in the United States during each of the three years ended January 31, 1983. Each principal category has been profitable. However, Schenley's profits on the sale of straight whiskies and Scotch whiskies generally are higher than on the sales of its other products. Approximately 50% of Schenley's case sales in the United States are of imported products, principally Scotch and Canadian whiskies and wines from Portugal.

	Year Ended January 31,		
	1983	1982	1981
Straight whiskies	24.3%	24.7%	25.0%
Scotch whiskies	21.0	20.3	17.0
Wines	18.9	18.1	19.0
Canadian whiskies	8.9	8.5	7.8
Gins and vodkas	8.2	9.4	10.9
Blended whiskies	3.1	3.2	3.3
Rums, brandies, cocktails, cordials, etc...	15.6	15.8	17.0

During the year ended January 31, 1983, Schenley licensed the Ancient Age and Ancient Ancient Age trademarks, sold its plant and related facilities in Frankfort, Kentucky and entered into a contract to supply the purchaser with Bourbon whiskey.

Distribution and Marketing

In the domestic market, 18 states and Montgomery County, Maryland have established liquor distribution systems under which sales of alcoholic beverages are made directly through their liquor control boards and commissions. Schenley sells to all of these boards and commissions. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers. In the year ended January 31, 1983, no wholesale distributor accounted for more than 4.1% and no state control board accounted for more than 3.2% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley advertises its products extensively, using various media, including magazines, newspapers, outdoor signs, and posters and point-of-sale promotional material, and, in addition, radio and television for wines. Advertising and promotional activities in the industry are, however, subject to regulation under Federal, state and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley utilizes five independent advertising agencies, and also places outdoor advertising through an agency owned by it. In the years ended January 31, 1983, 1982 and 1981 Schenley spent approximately \$46,000,000, \$51,000,000 and \$46,000,000, respectively, for advertising.

Foreign Operations

Schenley sold its wholly-owned subsidiaries in Canada, effective as of October 1, 1981. As part of the sale, Schenley Canada Inc. (now an unrelated party) set aside inventories for Schenley of Canadian whisky in bulk, for future bottling in Canada and subsequent importation and distribution in the United States. In addition, Schenley entered into a long-term supply contract, pursuant to which Schenley Canada will supply Canadian whisky to Schenley for sale in the United States. Schenley owns a 49.3% interest in AGE Bodegas Unidas, S.A., a Spanish company. See "Property" below for the plants and properties owned by the Spanish affiliate. Schenley maintains sales personnel in four countries outside of the United States.

Major trademarks of Schenley are registered in various countries. Trademark licensing agreements are in effect with customers in 11 foreign countries and overseas territories, who produce products under these trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 14 foreign countries, and overseas territories and dependencies on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley. The sales of Schenley to, and revenues derived from, these customers in foreign countries are not material.

Competition

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies. In the United States

market there are many competitors, a number of which market both distilled spirits and wines. Competition is principally on the basis of price and product quality, with advertising an important factor. The management of Schenley believes that its products are generally competitive with respect to these factors.

Inventories and Raw Materials

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley and other distillers age their whiskies for four years or more. As a result, inventories in the industry are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, white oak barrels, flavoring and bottling supplies. Schenley purchases its grains and the other materials from numerous sources. Schenley has phased-out the production of its own barrels. Since many of the raw materials used in the production of Schenley's alcoholic beverages are agricultural products, prices and costs are subject to the influences common to those products, including climate and governmental influences on production and marketing. Schenley purchases its requirements of barrels, bottles and other packaging materials from various manufacturers and distributors.

Regulation and Taxation

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. Twenty states have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding prices charged in any other state. States in which alcoholic beverages are distributed through state agencies have, for many years, required suppliers to make similar warranties. Several states regulate the mark-up which may be made at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships, by local option, to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing and supervision in other countries.

The products sold by Schenley are subject to Federal excise taxes on

distilled spirits and wines as well as varying Federal Customs duties on imports. Under the provisions of the Trade Agreements Act of 1979, particularly Title VIII thereof, significant changes in the method of Federal taxation and plant operation have been made.

The rate of Federal excise tax on all distilled spirits is \$10.50 a proof gallon. Distilled spirits are subject to other excise taxes, the most important of which are state gallonage taxes, varying in amount from \$1.50 to \$4.75 a wine gallon.

Imported distilled spirits and wines are also subject to Customs duties at varying rates. The principal Customs duties applicable to products imported by Schenley for the calendar year 1983 are as follows: 35 cents a proof gallon on bottled or bulk Scotch and Irish whiskies, (down from 39 cents a proof gallon in 1982), 43 cents a proof gallon on bottled or bulk Canadian whisky (down from 48 cents a proof gallon in 1982) and 50 cents a proof gallon on Gin from the United Kingdom and Germany (same rate as in 1982). The rate of duty on brandies varies in the case of bottled goods on the value of the product per gallon and is calculated at a lower rate on bulk brandy than on the bottled product. Rates of duty on whisky and brandy will be reduced in annual stages through 1987.

Other changes made by the Trade Agreements Act provided that the time within which the tax on distilled spirits shall be paid would be extended to 30 days in annual stages of five days each from the original period of 15 days. Commencing with the calendar year 1982, there is a 30-day period for payment, as contrasted with the 25-day period in the 1981 calendar year.

The entire structure of the law with respect to the establishment and operation of distilled spirits plants has been changed so as to provide for what is described as an "All-in-Bond" system. Under such system, the entire premises of a distilled spirits plant are treated as bonded premises, with certain exceptions. There is now less direct governmental supervision with respect to operations, plant security and related matters. However, the government has instituted a post-audit system for verifying proprietors' compliance with the law and regulations.

Employees

At January 31, 1983 Schenley employed approximately 3,000 people in the United States and approximately 400 people in other countries.

Schenley has contracts covering wages, hours of employment, working conditions and related matters with a number of labor unions, expiring at various dates to March 31, 1985, covering substantially all of the hourly-rated and certain of the salaried employees in the United States. Schenley maintains noncontributory pension plans and other benefit plans, contributory and noncontributory, for its employees, and contributes to union pension and welfare plans.

In general, labor relations have been satisfactory and there have been no strikes in recent years that had a material effect on Schenley's overall business.

Property

Schenley operates five plants for the production of distilled alcoholic beverages. These plants have an aggregate daily distilling capacity of approximately 95,000 proof gallons of whiskey or distilled spirits; facilities for bottling, under normal conditions, an aggregate of approximately 48,000 standard cases of product in an eight-hour day; and storage facilities for approximately 1,600,000 barrels of aged and aging distilled spirits. Schenley's partially-owned Spanish affiliate operates wineries with an aggregate daily production capacity of 23,700 cases. In addition, Schenley owns three inactive plants. Facilities at the Schenley Lawrenceburg, Indiana plant permit the production of gasohol with a daily capacity of 20,400 wine gallons at 200 proof. During 1981, Schenley acquired two commercial buildings in New York City containing approximately 290,000 square feet, which are now partially leased to third parties.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana; Louisville, Kentucky; Schenley, Pennsylvania; and Tullahoma, Tennessee. Schenley has a plant for the distillation of rum in the United States Virgin Islands. During the year ended January 31, 1983, Schenley sold its plant and related facilities at Frankfort, Kentucky and closed its Fresno, California facility.

Schenley owns all of its distilleries and plants. They are generally of sound construction, and, except for the inactive plants, are adequately equipped for carrying on Schenley's business and are generally in good operating condition.

Environment

Schenley's plants are subject to Federal, state and local pollution control regulations. Schenley believes it is presently in full compliance with such regulations at all its plants in the continental United States and has not received any indication to the contrary from governmental authorities. No major capital expenditures for pollution control compliance are anticipated for these plants for the foreseeable future.

A wholly-owned subsidiary of Schenley, Virgin Islands Rum Industries, Ltd. ("VIRIL"), owns and operates a rum distillery in the United States Virgin Islands. The wastes from rum distillation are, and have for many years been, discharged directly into the ocean some 1,800 feet off the south shore of St. Croix. Accordingly, the disposition of these wastes is subject to regulation under the Federal Water Pollution Control Act. In 1975, VIRIL challenged the restrictive effluent limitations included in a draft discharge permit issued by the U.S. Environmental Protection Agency ("EPA"). A hearing on the matter commenced in July 1977, but has remained in recess since that time.

In September 1979, VIRIL, EPA, and the Virgin Islands Department of Conservation and Cultural Affairs (the local agency responsible for environmental preservation) entered into a tentative agreement under which VIRIL would construct, and place in operation by early 1983, an anaerobic

waste treatment facility at a projected cost of \$3,500,000. The agreement also barred any attempt to impose civil or criminal penalties on VIRIL on account of its prior discharges. The Stipulation of Settlement was never executed. However, until November 1981, all three parties acted as if it had been. Prior to November 1981, VIRIL acquired land for the treatment facility, hired a consulting engineer, and solicited and received bids for construction of the facility. On July 13, 1981 VIRIL filed a Request for Reconsideration with EPA. That Request, and supplements to it, argued in essence that VIRIL ought not to be required to build the treatment facility because its effluence did not harm the environment and that VIRIL's competitive and economic circumstances had changed materially since 1979.

On April 9, 1982, EPA published a notice in the Federal Register calling for public comment on the pending VIRIL Request for Reconsideration and setting May 24, 1982, as the date such comments would be due. VIRIL filed two sets of comments in response to the Agency's notice. VIRIL has also requested that EPA give it assurances that discharges during the pendency of VIRIL's Request for Reconsideration would not be considered in violation of Federal law.

The EPA still has the VIRIL Request for Reconsideration under advisement, and it is not known when EPA will make its decision or what that decision will be. VIRIL is also seeking legislative relief from the U.S. Congress but cannot predict whether it will be successful in securing such relief. The Virgin Islands authorities have not commenced any enforcement action against VIRIL nor have they indicated an intent to do so.

McGREGOR

McGregor manufactures (a) men's clothing, in several price ranges, including popular priced and medium priced suits and sport coats sold by the Botany '500' and Cross Country Divisions, under private labels and the trademarks "Botany", "Botany '500'", "Cartier", "Bert Pulitzer", "Worsted-Tex", "Fashion Park", "Stein Bloch", "Broadstreet's" and "Coat Tails"; (b) men's, women's and boys' shirts, sport shirts and screen-print shirts sold by the Wonderknit, Anvil and Botany Shirt Divisions under such trademarks as "Wonderknit", "Ramrod", "New Era", "Botany", "Botany '500'", "500", "Anvil", "Ched", "Manfredo", "Ruggers", "St. Andrews", "The Livingston Tennessee Shirt Company" and "Bert Pulitzer"; and (c) ladies' lingerie, sleep wear and undergarments sold by the Gilead Division under the "Gilead" and "Gillies" trademarks. In addition, McGregor, through its Rapid-American Licensing Division, licenses others to use the "McGregor" trademark and certain other trademarks.

Sales and Distribution

McGregor sells directly to retail outlets throughout the United States through its own sales organizations. McGregor advertises in national and trade magazines and newspapers, and through printed material used in retail outlets. The Botany '500' division advertises on television and radio and in consumer newspapers and national magazines. McGregor uses cooperative advertising for its trademarked goods.

Trademarks are an important selling aid. The trademarks "Botany", "Botany '500'", "McGregor", "Bert Pulitzer", "Beau Brummell" and a number of others are registered in the United States and in many foreign countries. McGregor has an established licensing program, under which it licenses the right to use "McGregor", "Botany '500'", "Drizzler", "Bernhard Altmann" and other trademarks to foreign manufacturers, who produce sportswear and other merchandise under these trademarks for sale in their own and other authorized countries. Under this program, McGregor furnishes designs, patterns, engineering and other manufacturing and promotional services to its foreign licensees. McGregor licenses its "McGregor" and other trademarks to domestic manufacturers for men's shirts, sweaters, outerwear, slacks and pajamas, children's outerwear, boys' wear, men's and boys' ties and scarves and men's and ladies' footwear. McGregor has domestic licensing agreements pursuant to which it licenses, on a royalty basis, the production and sale by others under the Botany trademarks of men's and boys' hats and caps, neckwear, scarves, belts, handkerchiefs, pajamas and robes, men's shirts, raincoats and outdoor coats, small leather accessories, hosiery and other products. It also has licensing agreements with manufacturers in many foreign countries pursuant to which it licenses, on a royalty basis, the production and sale of men's tailored clothing, sportswear for men, women's and children's clothing and other apparel products under the Botany trademarks.

Raw Materials

Certain operations of McGregor use both knit and woven cloth in the manufacture of apparel. Anvil and Wonderknit have knitting mills where most of the various types of knitted cloth required in their garment manufacturing operations are fabricated in their entirety from yarn to finished product. Other McGregor operations purchase their finished cloth requirements primarily from domestic suppliers.

McGregor's menswear divisions purchase the greatest portion of their clothing fabric principally from domestic suppliers. No supplier accounted for more than 5% of material purchased by McGregor.

Employees

At January 31, 1983, McGregor employed approximately 4,200 persons. Approximately 38% of the production employees, together with certain other employees, are covered by collective bargaining agreements and several divisions and subsidiaries maintain pension, profit-sharing and other benefit plans for their employees and contribute to union pension and welfare plans. Labor relations have been harmonious and there have been no major work stoppages in recent years.

Competition

McGregor faces active competition with respect to all of the consumer products which it manufactures and sells. The principal methods of competition include price, product quality and performance, ability to meet

shipment schedules, selling and servicing the trade, direct and indirect advertising to the consumer, and the utilization of special promotional programs to deal with particular requirements, opportunities or market segments. The management of McGregor believes it is generally competitive with respect to these factors.

Management believes, on the basis of available information, McGregor is one of the largest manufacturers of men's tailored clothing not directly affiliated with any men's clothing retailer.

Property

McGregor operates 16 manufacturing facilities in the United States of which eight, containing approximately 840,000 square feet of space, are owned, and eight, containing approximately 840,000 square feet of space, are leased. McGregor also operates a number of sales offices and distribution centers. Management believes that McGregor's manufacturing facilities and equipment are capable of meeting operating requirements in peak periods.

SHENANDOAH

Shenandoah conducts thoroughbred horse racing with facilities for pari-mutuel wagering at Charles Town Race Course and Shenandoah Downs Race Track (the "Tracks") in Charles Town, West Virginia, as well as other activities incidental to such racing.

Revenues

The Tracks' revenues are derived from wagering activities and from non-wagering sources such as admissions, parking, food concessions and the sale of programs. The Tracks' revenues from wagering are dependent upon (i) the total amount wagered and (ii) the percentage of the pari-mutuel pool which the Tracks are entitled to retain, which is determined by the West Virginia Legislature. Among the factors which influence the aggregate amount wagered is the number of racing dates permitted and attendance at the Tracks.

No material part of the racing operations is dependent upon a single customer or very few customers.

Employees

Approximately 80 persons are employed on a full time basis by the Tracks and during the time that racing is conducted, approximately 400 persons are employed. Approximately 150 of these employees are represented by a union, under a contract which expires on December 31, 1985. In general, labor relations have been satisfactory and there have been no strikes in recent years.

Competition

Racing operations are affected by the competition of other thoroughbred and harness race tracks in Maryland and Pennsylvania. At the present time there are no race tracks in Virginia. The establishment of a race track in Virginia proximate to the Tracks or in their drawing area could have a significant adverse competitive effect on the business of the Tracks. In addition to the foregoing, the volume of business of the Tracks is affected by a variety of other factors, such as the racing dates granted, weather conditions during race meetings and general business conditions.

Regulations

The racing activities of Shenandoah are regulated by the West Virginia Racing Commission (the "Commission"). Among the responsibilities of the Commission is the determination of the dates on which Shenandoah may conduct race meetings and the licensing of employees at the Tracks. Shenandoah must apply annually to the Commission for a license to conduct horse race meetings during the following year, and the Commission, in granting the license, specifies the dates on which races may be conducted, subject to variation at Shenandoah's request with the consent of the Commission. Shenandoah anticipates that during 1983 racing will be conducted on 244 dates, and it is expected that all racing dates will be held at the Charles Town Race Course.

Property

Charles Town Race Course is situated on approximately 200 acres of land. Shenandoah owns the land and the structures on the land, subject to a mortgage. The racing plant of Charles Town Race Course consists of a three-quarter mile track with a grandstand and a clubhouse, both of which have betting mezzanines. The grandstand, which is glass enclosed and heated, seats approximately 3,400 persons and the clubhouse, the principal portion of which is glass enclosed, heated and air-conditioned, seats approximately 2,000 persons, including about 1,500 patrons in a restaurant from which spectators can watch the races while dining. Approximately 9,000 persons can be accommodated on the ramp located in front of the clubhouse and grandstand. Facilities include stables, tack rooms, paddocks, jockeys' quarters and recreation facilities, veterinarian and first aid facilities, a horsemen's restaurant and a building containing sanitary facilities for the stable area employees. The parking facilities accommodate approximately 4,500 automobiles.

Shenandoah Downs is situated on approximately 155 acres owned by Shenandoah adjacent to Charles Town Race Course. The five-eighths mile track at Shenandoah Downs is currently utilized as a training facility. The grandstand and clubhouse can seat an aggregate of 4,800 people and a ramp in front of the grandstand and clubhouse can accommodate approximately 9,000 persons and there are complete facilities for the horsemen and parking areas. The stable areas at the Tracks can accommodate a total of approximately 1,500 horses.

OPERATIONS HELD FOR SALE TO STOCKHOLDERS AND AFFILIATES

The following Rapid operations, Melville, ARG and Plastic Toy, are being held for sale to stockholders and affiliates of Rapid (see Item 13 - "Certain Relationships and Related Transactions", paragraph 5).

Melville

Melville is engaged in the manufacture and wholesale distribution of women's and misses' sportswear (principally knitted tops) designed to retail in the moderate to low price range.

Sales and Distribution

Melville sells principally to department stores, retail specialty shops and mail order organizations. Since its products are primarily associated with the colder months, Melville's sales are seasonal; the months of May through October are the stronger months as retailers make purchases in advance of the fall. Sales are made by four employees and 10 commissioned sales representatives. The products are not sold under any trademark. Although Melville sells to a large number of customers, it is dependent on a few of them for a substantial portion of its sales. During each of the past three fiscal years, five to seven of Melville's largest customers (including Lerner) accounted for more than 62% and for as much as 82% of its sales. In the opinion of management, Melville's relationship with its principal customers is good. However, the loss of any one of such customers could have an adverse effect on Melville's operations.

Raw Materials

Melville purchases yarn which it knits, dyes and sews into finished garments. Approximately 50% of the products sold are manufactured in foreign countries, principally Hong Kong, Taiwan and South Korea. In view of the foregoing, the regulations concerning import quotas on such products and any new regulations such as increased tariffs and duties could have an adverse effect on Melville.

Employees

Since Melville's business is seasonal, the number of employees vary, with an average of approximately 300 people being employed during the year. None of Melville's employees are covered by collective bargaining agreements.

Competition

The women's apparel business is very competitive and no single firm accounts for more than a small percentage of total industry sales. Melville is not a significant factor in the industry.

Property

Melville owns manufacturing facilities in North Carolina. Its principal plant is situated on approximately 15 acres of land in Waxhaw, North Carolina. The plant consists of a one-story concrete block building containing approximately 75,000 square feet of floor space; it is also used as a distribution center. Another building of approximately 50,000 square feet on the Waxhaw site is also utilized for warehousing and distribution. Additional manufacturing, warehousing and distribution activities are conducted in Monroe, North Carolina where Melville owns a one-story brick building containing approximately 97,000 square feet and located on an area of approximately five acres. Melville's principal office is located in Lynbrook, New York where it leases approximately 3,000 square feet, and it maintains showroom space in New York City.

ARG

ARG is engaged in the distribution of bicycles, bicycle parts and accessories through its two divisions, Cycle Products ("Cycle") and Service Cycle Supply ("Service"). Cycle and Service are distributors of bicycle horns, mirrors, tires, seats, lights, reflectors, pumps and other similar accessories as well as bicycle parts. In addition, Service distributes high quality bicycles which include the "Vista" brand which is imported from the Far East and certain other name brand bicycles which are manufactured domestically.

Sales and Distribution

Cycle markets its products nationally, under the tradestyles "Cycle", "Dorcy", "Bike Extra", and "Team Cycle", primarily from warehouses located in Emigsville, Pennsylvania; Memphis, Tennessee; and Fairfield, California. Cycle currently has approximately 500 customers, including national and regional chain stores, mass merchandisers and distributors. During the year ended January 31, 1983, Cycle's four largest customers accounted for approximately 23% of its total sales. Management believes that the loss of any one of these customers would have an adverse effect on Cycle's business. Cycle's sales are made primarily through outside sales organizations.

During the year ended January 31, 1983, ARG acquired certain assets from Dorcy International Corp. primarily consisting of bicycle parts and accessories.

Service, operating primarily from a distribution facility in Commack, New York, markets its products to independent bicycle dealers and repair establishments in the Northeastern United States. Service currently sells its bicycles, bicycle parts and accessories to approximately 800 customers, none of which accounted for more than 2% of total sales during the year ended January 31, 1983. Service's sales are made primarily by its own personnel.

Raw Materials

Approximately 75% of the products distributed by Cycle and Service are imported from Japan and other Far East countries. Executives of Cycle and Service perform substantially all of the functions connected with foreign purchases made by those divisions and the importation of their products into the United States.

Employees

Approximately 165 people are employed on a full-time basis by Cycle and Service, of which approximately 60 people are covered by union contracts which expire at various times through January 1985. Additional employees are added during peak periods. In general, labor relations have been satisfactory and there have been no significant work stoppages in recent years.

Competition

Cycle and Service are in a competitive business. Management believes that ARG is one of the larger distributors of bicycle parts and accessories in the United States.

Property

Cycle leases and operates three distribution and warehouse facilities in the United States containing approximately 400,000 square feet of space.

Service's office, warehousing and distribution operations are centralized in a leased facility of approximately 60,000 square feet, located in Commack, New York.

Plastic Toy

Plastic Toy manufactures and distributes a variety of plastic toys and novelty items, principally for children six months to eight years old. Sales by Plastic Toy are principally made to wholesalers and jobbers, retail discount chains, mass marketing concerns and retail toy stores.

Sales and Distribution

Plastic Toy's business is seasonal, a large portion of its sales are for sand toys shipped in late winter and early spring. Other products are sold in the fall for Christmas.

No patents, licenses, franchises or concessions are owned by Plastic Toy in connection with its operations. Many of its products are sold under the registered trademark "PT&N".

During the fiscal year ended January 31, 1983, the two largest customers of Plastic Toy accounted for approximately 26% of its total sales. Management believes that the loss of either customer would have an adverse effect on the business of Plastic Toy. No other customer accounted for more than five percent of total sales.

Raw Materials

The principal raw materials used by Plastic Toy in the manufacture of finished products are high density polyethylene plastic pellets, commonly called "powder". Plastic Toy purchases the powder, the principal portion of which is shipped directly, and sold by Plastic Toy, to contract molders who mold the toy parts using molds designed and owned by Plastic Toy. The molded parts are then sold and shipped to Plastic Toy which then finishes, decorates, assembles, packages, stores, sells and ships the finished product to its customers. There are many suppliers of powder and many molders of plastic products.

Employees

Approximately 100 people are employed on a full time basis by Plastic Toy, of which approximately 80 people are covered by a union contract which expires on December 31, 1984. Additional employees are added during periods of peak production. In general, labor relations have been satisfactory and there have been no strikes in recent years.

Competition

The toy business is highly competitive. Plastic Toy's sales do not account for a significant portion of the total volume of wholesale toy sales in the United States.

Property

Plastic Toy's manufacturing, warehousing and office operations are centralized in a leased facility aggregating approximately 120,000 square feet, located in New York City.

Item 2. Properties.

Rapid leases approximately 300,000 square feet of office space at 888 Seventh Avenue, New York, New York (under a lease expiring in 1995), of which Rapid and certain of its subsidiaries occupy approximately 130,000 square feet for executive and administrative offices for itself and certain of its subsidiaries and has subleased the balance. Rapid has leased approximately 100,000 square feet of office space at 645 Fifth Avenue, New York, New York (under a lease expiring in the year 2000), which has been subleased. McCrory leases approximately 139,000 square feet of space at 360 Park Avenue South, New York, New York, pursuant to a lease expiring in 1990. McCrory has subleased this space through June 1984 (renewable through 1990).

In September 1981, Rapid purchased the former S. Klein property on 14th Street, New York, New York for approximately \$14,000,000 in cash and notes, payable over four years. Simultaneously with such purchase, McCrory's lease for such property was cancelled. Rapid is studying plans for this property.

Reference is made to Item 1 - "Business" for information concerning other physical properties of Rapid and its subsidiaries.

Item 3. Legal Proceedings.

Various legal proceedings are pending relating to transactions in which Rapid or its subsidiaries have been involved. These lawsuits have been brought against various defendants, including Rapid, its subsidiaries and predecessors, and certain of their officers and directors. All references herein to Rapid include Old Rapid and Kenton, unless the context otherwise requires, and all references herein to Kenton are to such corporation as it existed prior to the Merger (see "Introductory Note" above).

Securities and Exchange Commission

On August 16, 1979, Rapid, McCrory and Meshulam Riklis, the Chairman of the Board, Chief Executive Officer and President of Rapid and the then Vice Chairman of the Board of McCrory, consented to the entry of judgments against them, without admitting or denying the allegations of a complaint filed against them on that day by the Securities and Exchange Commission in the United States District Court for the District of Columbia.

The complaint in the action contained allegations concerning a pattern of transactions whereby Rapid and McCrory paid fees and entered into agreements with personal creditors of and persons who entered into business relationships with Mr. Riklis. It was alleged that the transactions in question were either negotiated or approved by Mr. Riklis at a time when he was the Chairman of the Board, Chief Executive Officer and President of Rapid and Vice Chairman of the Board of McCrory. The complaint alleged that in certain of the transactions, Rapid or McCrory, at the direction of Mr. Riklis, paid finder's fees or entered into consulting agreements with personal creditors of Mr. Riklis, and that neither the substance of the transactions nor Mr. Riklis' conflict of interest in causing the transactions to be consummated was disclosed to the Board of Directors of Rapid or McCrory. In another transaction it was alleged that Mr. Riklis caused McCrory to amend an employment agreement with a senior executive of McCrory in order to allow the senior executive to immediately receive accrued compensation, to which he was not then entitled, which money was then immediately loaned to Mr. Riklis, and that the Board of Directors of McCrory, which later approved the amendment, was not informed that the proceeds resulting from the amendment were used to make a loan to Mr. Riklis. In other transactions it was alleged that Mr. Riklis negotiated, directly or indirectly, or approved employment agreements on behalf of Rapid and McCrory with senior executives of those companies who were or became his personal creditors or who had entered into personal business relationships with him, and that Mr. Riklis did not disclose to the Boards of Directors of Rapid and McCrory his debtor-creditor or other personal

business relationships with the executives in question and his resulting conflict of interest. Kenton was also a party to the proceedings, and the allegations concerning Kenton related to the purchase by Kenton of approximately 1,100,000 shares of Rapid common stock from Mr. Riklis in order, among other reasons, allegedly to allow Mr. Riklis to amortize his personal loans while at the same time retaining his control of Rapid through his substantial influence over the business and affairs of Kenton. In addition, it was alleged that Mr. Riklis caused Kenton, as he did Rapid and McCrory, to enter into transactions with persons who were or became, soon after the transactions were consummated, his personal creditors.

At the time of the filing of the complaint and the related judgments, Rapid, McCrory and Mr. Riklis filed undertakings with the Court requiring them to carry out certain obligations, including the creation of a Transaction Review Committee of the Board of Directors of Rapid. Pursuant to Rapid's undertaking, disclosure to the new Transaction Review Committee of the Board of Directors of Rapid would be required of personal transactions between officers or directors of Rapid or any of its subsidiaries and third parties prior to Rapid's or any of its subsidiaries' entering into transactions with such parties. In addition, approval by the Transaction Review Committee would be required prior to the consummation of any transaction between such third parties and Rapid or its subsidiaries. In accordance with Rapid's undertaking, effective on August 16, 1979, Rapid's Board of Directors was expanded from 12 to 16 members and the four new members of the Board of Directors were elected to the Transaction Review Committee. Prior to their election as directors, none of the new directors had any business relationship with Rapid or with any existing director or officer of Rapid. The qualifications of the new directors were submitted to the staff of the Securities and Exchange Commission.

On February 15, 1979, Rapid and Schenley entered into consent decrees with the Securities and Exchange Commission in connection with an action filed on that day by the Commission in the United States District Court for the Southern District of New York. Injunctions entered against Rapid and Schenley, respectively, and the related consents and undertakings given by Rapid and Schenley, among other things, enjoined violations of certain provisions of the federal securities laws, required certain filings to be made with the Commission, and required that Schenley undergo an investigation. The action concerned certain business practices, mainly relating to depletion allowances, which Schenley believes were common in the liquor industry and which have been discontinued in all respects since early 1976. In October 1977, Schenley's Board of Directors initiated a voluntary investigation of prior business practices. Pursuant to the consent decree, Schenley agreed to appoint independent counsel to continue the investigation concerning other payments and practices. Such counsel had previously conducted Schenley's voluntary investigation. On August 24, 1979, the independent counsel's report was filed with the Court and the Securities and Exchange Commission. Insofar as the management of Schenley is concerned, the report concluded that ".... the senior management of Schenley was either unaware of most of the questionable or illegal practices which we have reported upon, or when they became aware of them, took timely action to have such practices stopped." The report contains certain recommendations regarding actions that Schenley should take to insure its continued compliance with applicable Federal and state laws

governing the liquor industry. No fraud charges were made against Rapid and no allegations were made that it participated in any of the business practices which were the subject of the action.

Litigation Relating to Compensation and Other Matters

A challenge to the compensation and perquisites of employment of certain of Rapid's officers and directors was made in stockholders' derivative actions instituted in the state courts of Delaware and New York. On January 23, 1978, the Delaware Court of Chancery entered an order and judgment approving a settlement agreement, in which plaintiffs in all related actions joined, which order and judgment became final during March 1978. The settlement agreement provided for Messrs. Meshulam Riklis, Isidore A. Becker, formerly Vice Chairman of the Board of Rapid, and Leonard C. Lane to waive certain contractual rights and for the discharge of all individual defendants, including those persons, from any liability relating to the compensation paid and perquisites of employment given to such defendants prior to December 13, 1977, the date of the settlement agreement. In addition, pursuant to the settlement agreement Messrs. Riklis, Becker and Lane became obligated to pay Rapid \$50,000, \$125,000 and \$25,000, respectively, in five equal annual instalments, without interest, commencing March 31, 1979. All five instalments have been paid.

Action by Unishops

In February 1974, an action was instituted in the Supreme Court of the State of New York, County of New York, by Unishops, Inc., and several of its wholly-owned subsidiaries, against J. J. Newberry, McCrory, Rapid, and former McCrory and J. J. Newberry executives. The complaint alleges, in essence, that to permit J. J. Newberry to sell three stores, plaintiffs cancelled license agreements, pursuant to which they operated men's and boys' wear departments in those stores, in reliance upon J. J. Newberry's agreement that those agreements would be replaced by new license agreements for four new locations. Plaintiffs charge that the amount of business done at two of the new locations has been materially less than represented by J. J. Newberry and that defendants have refused to enter into the other two promised agreements. McCrory and Rapid are alleged to be liable to plaintiffs by virtue of their ownership and control of J. J. Newberry and because they allegedly cooperated in J. J. Newberry's acts. Plaintiffs seek aggregate damages of \$7,500,000 plus costs.

Asbestosis Litigation

Rapid and Glen Alden Corporation ("Glen Alden"), a predecessor of Rapid, together with other corporations which are allegedly miners, manufacturers and distributors of asbestos or products containing asbestos, are defendants in a number of actions filed in several states alleging injuries to the health, or wrongful death, of persons exposed to asbestos or products containing asbestos. There are currently pending approximately 216 actions against Rapid or Glen Alden in which an aggregate of approximately 373

persons are seeking compensatory and punitive damages. It is likely that additional actions will be commenced in the future.

Neither Rapid nor Glen Alden is or ever was directly involved in the mining, manufacture or distribution of asbestos or products containing asbestos. In 1966, Glen Alden acquired 28% of the outstanding shares of The Philip Carey Manufacturing Company, an Ohio corporation ("Old Carey"). Since its incorporation in 1888, Old Carey had been engaged in, among other things, the manufacture of products containing asbestos fibers and since 1915, through a Canadian subsidiary, it owned and operated asbestos mines and mills. On June 1, 1967, Old Carey was merged into Glen Alden and the assets, properties and businesses of Old Carey were contemporaneously transferred to a newly-formed corporation called The Philip Carey Manufacturing Company, an Ohio corporation ("New Carey"), which was then a wholly-owned subsidiary of Glen Alden. As part of such transaction, New Carey contractually assumed and indemnified Glen Alden (the "Indemnification Agreement") against all of the liabilities of Old Carey to which Glen Alden might become subject as a result of the aforesaid merger. From and after June 1, 1967, the asbestos business formerly conducted by Old Carey was carried on by New Carey. In April 1970, New Carey merged with Briggs Manufacturing Company, in which Glen Alden then had a 48% interest, to form Panacon Corporation ("Panacon"). On April 17, 1972, Glen Alden sold all of its shares of Panacon, representing approximately 89% of the outstanding shares thereof, to The Celotex Corporation ("Celotex"), a wholly-owned subsidiary of Jim Walter Corporation. Thereafter, Panacon was merged into Celotex. In all of the asbestos actions in which Rapid or Glen Alden is a party, each has asserted or will assert claims for indemnification against Celotex as the successor in interest to New Carey and Panacon under the Indemnification Agreement. To date, in certain of the actions in which such claims have been made, Celotex has denied Rapid's and Glen Alden's claims and in the remainder of such actions, Celotex has been deemed to have denied such claims. Although in certain of the actions, Celotex has admitted that it is the successor in interest of Old Carey and New Carey, Celotex has asserted cross-claims against Rapid or Glen Alden in certain of the actions for indemnification or contribution as to judgments for compensatory or punitive damages which may be rendered against Celotex. Rapid and Glen Alden have denied the claims asserted by Celotex. Should any of the actions in which Rapid is a party result in judgments against Rapid, Rapid believes that it would be entitled to and would seek indemnification from Celotex under the Indemnification Agreement. Rapid has no knowledge regarding the financial condition of Celotex. To the extent that any judgments which might be entered against Rapid are not satisfied by Celotex under the provisions of the Indemnification Agreement, Rapid would seek indemnification from its insurance carriers and those which had insured Old Carey and New Carey.

To date none of the asbestos cases in which Rapid or Glen Alden is a defendant has been tried, and except for the settlement of two actions in which an insurance carrier has paid an aggregate of \$15,000, neither Rapid nor Glen Alden nor any insurance carrier on behalf of either has been required to pay any sums in connection with any of the asbestos actions which have been settled. In June and July 1981, a jury rendered verdicts for \$91,000 in compensatory damages and \$95,000 in punitive damages against Celotex in 14 asbestos actions which had been consolidated for trial. Celotex has appealed from the verdicts. Rapid or Glen Alden had originally been defendants in each

of the actions, but had been dismissed by stipulation among all parties. In agreeing to permit Rapid or Glen Alden to be dismissed from the actions, Celotex reserved the right to seek indemnification or contribution from Rapid or Glen Alden in the event a judgment for punitive damages in the actions was entered against Celotex.

Since 1966, when Glen Alden first acquired its interest in Old Carey, primary liability coverage for bodily injury has been maintained by Rapid or Glen Alden having aggregate annual maximum policy limits in the sum of \$3,000,000. In addition to primary insurance, Rapid and Glen Alden have maintained excess liability insurance coverage for such years substantially over the amount of the primary insurance coverage.

While the aggregate amount of damages sought to be recovered by plaintiffs in the actions in which Rapid or Glen Alden is a defendant is substantial, the actual amounts of various settlements of actions in which Rapid or Glen Alden was not required to contribute to a settlement fund have been significantly less than the amounts demanded in plaintiffs' complaints, and payment of the amounts of the settlements has been divided among various of the settling defendants or their insurance carriers.

Litigation Related to Employment Matters

In September 1979, an action was instituted in the United States District Court for the Northern District of Illinois, Eastern Division, by Alvin Hayes and others against Schenley Affiliated Brands Corp., a subsidiary of Schenley, and others. Each of the plaintiffs allege that he is currently or was previously employed by the defendants. The complaint alleges, in essence, that the defendants have violated certain provisions of the Civil Rights Act of 1964 by discriminating against plaintiffs in job classifications and job assignments because of their race. In addition, the complaint alleges that the defendants have maintained policies and practices with respect to, among other things, wages, fringe benefits and other terms and conditions of employment, which have operated to deny equal opportunities to plaintiffs because of their race. The complaint seeks a declaratory judgment that defendants' acts set forth in the complaint violated plaintiffs' rights under the Civil Rights Act of 1964 and a permanent injunction enjoining the defendants from engaging in any employment policy or practice which discriminates against plaintiffs on the basis of race. The complaint further seeks appropriate back pay and reimbursement for lost wages, social security, experience, training opportunities and other benefits, and other affirmative relief, including an affirmative action program designed to eliminate the effects of the discriminatory practices set forth in the complaint. In addition, the complaint seeks compensatory damages of \$25,000,000 and punitive damages of \$25,000,000, and costs and disbursements in connection with the action, including counsel fees. By order dated July 14, 1980, the court granted defendants' motion to join the Liquor and Wine Salesmen's Union, Local No. 62 (the "Union"), as a party defendant, and granted defendants' motion to dismiss the complaint insofar as it related to claims asserted under Title VII of the Civil Rights Act of 1964. Certain other claims were allowed by the court to stand. Plaintiffs filed an amended complaint joining the Union as a defendant on September 9, 1980. Defendants have moved to strike the claimed amounts of compensatory and punitive damages from the complaint. This motion is pending.

Litigation Relating to Dialysis Facility

In March 1980, an action was commenced against Rapid by Century City Hospital seeking general damages in the sum of \$8,400,000 and punitive damages in the sum of \$25,200,000, plus costs, for breach of contract and tortious breach of contract. The complaint alleges, among other things, that as a result of the treatment of certain persons at the facility in September 1978, Rapid breached its lease agreement with Century City Hospital by failing to render and deliver dialysis treatments at the facility in accordance with professional standards and regulations adopted by the State of California Department of Health Services. The complaint further alleges that as a result of defendants' breaches and of their subsequent failure to notify plaintiff of the nature of their breaches, plaintiff was damaged in that the sale price of Century City Hospital was depressed and revenues from hospital services were diminished. The punitive damage claim has been dismissed by the court.

Rapid is the plaintiff in an action commenced against Century City Hospital in which the complaint, among other relief, seeks damages of approximately \$90,000 arising from an alleged contractual obligation of Century City Hospital to reimburse Rapid for certain charges relating to the operation of the facility.

On March 12, 1982, Century City Hospital filed a voluntary petition in bankruptcy in the United States Bankruptcy Court for the Central District of California. Such proceeding is presently pending.

Litigation Related to Mateus Distribution Agreement

In April 1983, an action was instituted in the United States District Court for the Southern District of New York by Sogrape-Vinhos de Portugal, S.A.R.L., the producer of Mateus wines, against Schenley and Schenley Affiliated Brands Corp. The complaint alleges, in essence, that the defendants embarked on a course calculated drastically to reduce the volume of Mateus wines sold in the United States by announcing a price increase to its wholesalers and by failing to maintain an adequate sales staff for distribution of Mateus wines. In addition, the complaint alleges that defendants' actions were calculated to coerce plaintiff either into buying out or extending the Mateus wines distribution agreement, and that defendants acted in bad faith and failed to exercise their best efforts to sell and promote Mateus wines. Plaintiff further alleges that it has terminated for cause the Mateus wines distribution agreement. The complaint seeks damages "in an amount in excess of \$25,000,000."

Additional Litigation, etc.

There are currently pending a number of actions allegedly brought derivatively on behalf of Rapid or McCrory and which seek recoveries against certain officers and directors of Rapid for the benefit of Rapid or McCrory based upon allegations of fraud or other wrongdoing by those officers and/or directors. Such actions were described in the Proxy Statement issued in connection with the Merger (see "Introductory Note"). Since the Merger, each

of such actions has been inactive. Rapid will attempt to obtain the dismissal of all such actions on the grounds that (i) following the Merger, plaintiffs in those actions are no longer stockholders, directly or indirectly, of the company on behalf of which those actions are brought and therefore lack standing to pursue derivative suits on behalf of such company, (ii) the existence of such actions was taken into account in determining the fair consideration to be given to the public stockholders of Rapid in connection with the Merger, and (iii) all stockholders of Rapid after the Merger have waived for themselves and Rapid any recovery that might have been obtainable in those actions.

Various other legal proceedings including governmental proceedings and investigations by Federal and state regulatory agencies having jurisdiction over aspects of the business and affairs of Rapid and its subsidiaries are pending against or otherwise relate to Rapid and its subsidiaries, involving miscellaneous causes of action arising from their businesses, including, but not limited to, income tax matters, treble damage actions under the antitrust laws, commercial cases arising out of agreements or alleged agreements, personal injury and property damage matters, labor disputes, and other actions. A proceeding is pending before the Environmental Protection Agency involving Schenley (see Item 1 - "Alcoholic Beverages-Environment"). Management does not consider any of these proceedings or investigations to be material.

Item 4. Submission of Matters to a Vote of Security Holders.

None

PART II.

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters.

As a result of the Merger (see "Introductory Note" above), Rapid Common Stock is not publicly traded. The number of holders of record on April 15, 1983 of each class of equity securities of Rapid is set forth in the following table:

<u>Title of Class</u>	<u>Number of Holders of Record</u>
Common Stock	2

During the year ended January 31, 1982, cash dividends of \$1.00 per share were declared on Rapid common stock.

During the year ended January 31, 1983, cash dividends of \$1.60 per share were declared on Rapid Common Stock.

The indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006, provides that Rapid will not (i) declare or pay any dividend or make

any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent to January 31, 1981 shall exceed the sum of (a) 85% of the aggregate of the (i) consolidated net income of Old Rapid (see "Introductory Note" above) for its fiscal year ended January 31, 1981, less any dividends paid by Old Rapid on shares of its capital stock during such fiscal year and (ii) consolidated net income of Rapid subsequent to January 31, 1981, (b) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1981 of capital stock of Rapid, and (c) the aggregate net proceeds received by Rapid from the issue or sale of any indebtedness of Rapid converted after January 31, 1981 into capital stock of Rapid; provided, however, that such provisions will not prevent the payment of any dividend within 60 days after the date of declaration if the payment complied with the foregoing provisions on the date of declaration, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock.

Consolidated net income is defined as the reported consolidated net income of Old Rapid and its consolidated subsidiaries for its fiscal year ended January 31, 1981 and the reported consolidated net income of Rapid and its consolidated subsidiaries for subsequent periods determined in accordance with generally accepted accounting principles, excluding (i) the portion thereof allocable to minority interests in any such consolidated subsidiaries, (ii) net income of any corporation (other than a consolidated subsidiary) combined with Rapid or any consolidated subsidiary on a "pooling of interests" basis earned prior to the date of combination, and (iii) all charges incurred and credits realized which are unusual in nature and infrequently occurring. At January 31, 1983, the amount available under the above provisions was approximately \$42,000,000.

Item 6. Selected Financial Data.

	Year Ended January 31,				
	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>
	(Dollars in millions)				
Net sales	\$2,570.7	\$2,645.9	\$2,588.7	\$2,603.9	\$2,474.9
Income before extra-ordinary credit	32.7	7.0	27.6	34.6	37.2
Total assets	1,591.7	1,564.1	1,561.7	1,587.7	1,584.1
Long-term debt	779.4	881.0	855.2	782.7	812.0
Noncurrent capital lease obligations ...	51.6	65.3	75.7	85.4	97.3
\$3.00 preference stock.	-	-	-	53.5	-
Other:					
Return on sales	1.3%	.3%	1.1%	1.3%	1.5%
Working capital at year-end	336.3	457.5	467.8	593.0	618.6
Current ratio	1.6	2.1	2.1	2.8	2.9
Ratio of earnings to fixed charges and preferred dividends combined	1.30	1.15	1.20	1.37	1.54
Number of employees at year-end	40,000	45,000	46,000	48,000	50,000

Supplemental Information on Changing Prices Required by the FASB

The United States in recent years has experienced a high rate of inflation. Inflation tends to distort the traditional measurement of income and capital. The Financial Accounting Standards Board (FASB) recognized this problem and issued Statement No. 33 - Financial Reporting and Changing Prices. This statement requires companies to demonstrate the effects of inflation and changing prices on their operations by supplementing their historical financial statements with data that demonstrate the effects of inflation.

Historical data are adjusted for general inflation by using the Consumer Price Index for All Urban Consumers as a broad-based measure of general inflation. The financial data for any comparison of a series of years that results from this method are expressed in terms of constant dollars of purchasing power.

Current cost data are determined based upon year-end prices for inventory and property of the type and age used in the company's businesses. Data for inventory and cost of goods sold are generally based upon current invoices, price lists and quotations from suppliers. Data for fixed assets are generally based upon indices which approximate the current cost of acquiring used equipment and facilities.

Rapid uses the LIFO inventory method in valuing substantially all of its inventories. Accordingly, since the LIFO method matches current costs with current revenues, Rapid has already made some allowance for the effects of general inflation and changing prices in the historical financial statements.

The following data were prepared in accordance with the FASB Statement to demonstrate the effects of inflation and changing prices.

Income before extraordinary credit adjusted for general inflation and changing prices

	Year Ended January 31, 1983		
	As reported	Adjusted for general inflation (constant dollars)	Adjusted for specific price changes (current costs)
	(In Millions)		
Net sales and other revenues	<u>\$2,615</u>	<u>\$2,615</u>	<u>\$2,615</u>
Cost of goods sold	1,809	1,835	1,838
Selling, general and administrative expenses	553	553	553
Interest and debt expense	155	155	155
Depreciation and amortization	36	66	86
Provision for income taxes *	<u>29</u>	<u>29</u>	<u>29</u>
	<u>2,582</u>	<u>2,638</u>	<u>2,661</u>
Income (loss) before extraordinary credit	<u>\$ 33</u>	<u>\$ (23)</u>	<u>\$ (46)</u>
Gain from decline in purchasing power of net amounts owed		<u>\$ 39</u>	<u>\$ 39</u>
Increase in current cost of inventory, property, plant and equipment held during the year (based on specific price changes)			\$ 43
Effect of increase in general price level			<u>49</u>
Decrease in current cost of inventory, property, plant and equipment held during the year (based on specific price changes) net of changes in the general price level			<u>\$ (6)</u>

* In accordance with FASB Statement No. 33 the provision for income taxes is not adjusted for the effects of general inflation.

The current cost of inventory was approximately \$590,000,000 and \$728,000,000, respectively, and property, plant and equipment (net of accumulated depreciation and amortization) was approximately \$773,000,000 and \$737,000,000, respectively, at January 31, 1983 and 1982.

Five year comparison of selected supplementary financial data adjusted for general inflation and changing prices in average fiscal 1982 dollars

	Year Ended January 31,				
	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>
	(In Millions)				
<u>Net sales:</u>					
As reported	<u>\$ 2,571</u>	<u>\$ 2,646</u>	<u>\$ 2,589</u>	<u>\$2,604</u>	<u>\$2,475</u>
Adjusted for general inflation	<u>\$ 2,571</u>	<u>\$ 2,798</u>	<u>\$ 3,013</u>	<u>\$3,434</u>	<u>\$3,644</u>
<u>Reported information adjusted for general inflation</u>					
Income (loss) before extraordinary credit	<u>\$ (23)</u>	<u>\$ (57)</u>	<u>\$ (37)</u>	<u>\$ 11</u>	
Gain from decline in purchasing power of net amounts owed	<u>\$ 39</u>	<u>\$ 95</u>	<u>\$ 139</u>	<u>\$ 172</u>	
Net assets at year-end	<u>\$ 481</u>	<u>\$ 566</u>	<u>\$ 575</u>	<u>\$ 695</u>	
<u>Current cost information</u>					
Loss before extraordinary credit	<u>\$ (46)</u>	<u>\$ (57)</u>	<u>\$ (47)</u>	<u>\$ (27)</u>	
Net assets at year-end	<u>\$ 625</u>	<u>\$ 682</u>	<u>\$ 741</u>	<u>\$ 744</u>	
<u>Other information</u>					
Average consumer price index.	<u>289.9</u>	<u>274.2</u>	<u>249.1</u>	<u>219.8</u>	<u>196.9</u>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Net sales decreased by \$75,235,000 (approximately 3%) during fiscal 1982, principally due to the decline in border store retail sales as a result of the Mexican peso devaluations and from the completion of the phase-out of Britts Department Stores. Other revenues in 1982 increased by \$14,978,000 primarily due to increased interest income earned by Schenley. Cost of goods sold, selling, general and administrative expenses also decreased by approximately 3%, in proportion with the decrease in sales. Interest expense declined \$5,599,000 primarily as a result of lower prime interest rates in effect during the year, offset in part by increased borrowings. The effective income tax rate decreased from 79.1% to 46.9% principally due to the prior year tax provision related to the disposition of Schenley's Canadian operations. The increase in income before extraordinary credit was principally due to the prior year's nonrecurring loss on the disposition of

Schenley's Canadian operations, a reduction in the effect of the LIFO inventory method on cost of goods sold due to the moderation of inflation, additional interest income and reduced interest expense.

Net sales increased by 2% or \$57,240,000 during fiscal 1981. Retail sales increased 8%, due primarily to the additional sales volume of the acquired S.H. Kress Stores and other stores opened, which was offset in part by a 13% decline in alcoholic beverage sales, due primarily to the continued effect of the disposal of "in house" distributors and a decline in case sales. Other revenues in 1981 increased by \$15,202,000 principally due to the gain on sale of an airplane and increased interest income earned mainly by Schenley. Cost of goods sold and selling, general and administrative expenses also increased 2%, in proportion with the increase in sales. Interest expense increased by \$43,651,000 primarily as a result of interest on the 10% Debentures (issued in the Merger - see "Introductory Note" above), higher borrowing levels and higher prime interest rates in effect during the year. The effective income tax rate increased from 45.4% to 79.1%, primarily due to a tax provision related to the disposition of Schenley's Canadian operations. The decline in net income was principally due to the nonrecurring loss on the disposition of Schenley's Canadian operations and increased interest expense.

Net sales in fiscal 1980 totaled \$2,588,674,000, less than 1% below 1979 sales of \$2,603,865,000. Retail sales increased moderately while alcoholic beverage sales declined moderately due principally to the disposal of "in house" distributors in 1979 and 1980. Other revenues in 1980 increased by \$5,370,000 principally due to the gain on the sales of distributors. Total costs and expenses were virtually unchanged from the prior year, although as a percentage of revenues there was an increase in 1980. This was caused by the expenses incurred in operating over 100 additional stores and the inventory liquidation losses incurred in the industrial group. Net income for 1980 was \$27,566,000 compared to \$34,603,000 in 1979. The decline in net income was primarily due to reduced sales without corresponding reductions in costs and expenses.

Liquidity and Capital Resources

Rapid and its subsidiaries, during the three years ended January 31, 1983, have funded debt repayments, capital additions, dividends and amounts due from stockholders and affiliates, principally through earnings from operations, depreciation and amortization of property and debt discount, deferred income taxes and sale of assets. Seasonal working capital requirements have generally been provided by borrowings under bank credit agreements and the sale of commercial paper.

The Merger of Rapid and Kenton on January 31, 1981 and the warrant exchange offer, which expired on April 20, 1981, resulted in the issuance of approximately \$291,400,000 principal amount of Rapid 10% Debentures (see "Introductory Note"). Accordingly, interest expense significantly increased, offset in part by reductions in related income taxes together with a reduction in aggregate cash dividends on preference, preferred and common stocks. (See Note 2 to Financial Statements).

Rapid anticipates that repayments of long-term debt and expenditures

for capital additions will be provided from general corporate funds or other sources, which may include proceeds from borrowings, sales of assets or refinancings.

Restrictions on the net assets of Rapid's subsidiaries have not had and are not expected to have an impact on Rapid's ability to meet its cash obligations (see Note 6 to Financial Statements).

See Item 6 for the effects of inflation on Rapid's Financial Statements.

Item 8. Financial Statements and Supplementary Data.

See accompanying Index to Financial Statements and Schedules on page F-1.

Item 9. Disagreements on Accounting and Financial Disclosure.

None.

PART III.

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth the principal occupations and certain related information of Rapid's directors and executive officers as of April 15, 1983:

<u>Name</u>	<u>Age</u>	<u>Principal occupation and related information</u>	<u>Served as director since</u>	<u>Served as officer since</u>
Mona R. Ackerman (a)	36	Director of Rapid-American Foundations; senior editor, Jove Books, from March 1979 to January 1981; editor, Dell Publishing Company, 1978 to 1979	1976	-
Harold S. Divine	61	Vice Chairman of the Board of Rapid for more than the past five years; Executive Vice President of McCrory since January 1983; prior thereto senior executive of McCrory for more than five years	1976	1977

<u>Name</u>	<u>Age</u>	<u>Principal occupation and related information</u>	<u>Served as director since</u>	<u>Served as officer since</u>
Arie Genger	37	Private investor; Civil Servant-Government of Israel from January 1982 to January 1983; prior thereto a senior executive of Rapid and certain of its subsidiaries for more than the past five years	1978	-
Seymour Kleinman(b)	64	Senior partner, law firm of Golenbock and Barell, and Lecturer in Finance and Secured Transactions, Columbia University Law School, for more than the past five years; Chairman of the Transaction Review Committee of Rapid since August 1979	1979	-
Leonard C. Lane	64	Chairman of the Board of ILC Industries, Inc. ("ILC") (primarily a manufacturer of advanced electronic data converters) for more than the past five years; Vice Chairman of the Board of Rapid from February 1981 to March 1982; Executive Vice President of Rapid from April 1969 to February 1982	1960	-
Abraham G. Levin	63	Senior partner, law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid, for more than the past five years	1981	-
Carl H. Lindner	63	Vice Chairman of the Board of Rapid since 1982; Chairman of the Board and President of AFC for more than the past five years	1982	-
Carl H. Lindner, III (a)	29	Executive Vice President of Great American Insurance Company, a subsidiary of AFC, since February 1980; prior thereto associated with AFC's banking, insurance and investment companies for more than the past five years	1981	-

<u>Name</u>	<u>Age</u>	<u>Principal occupation and related information</u>	<u>Served as director since</u>	<u>Served as officer since</u>
S. Craig Lindner(a)	28	Senior Executive Vice President of American Money Management Corporation, an investment subsidiary of AFC, since April 1980; prior thereto associated with AFC's banking, insurance and investment companies for more than the past five years; a director of American Financial Enterprises Inc. since 1980 and of FMI Financial Corporation since 1982	1981	-
Robert C. Lintz(a)	49	Vice President of AFC since April 1979; prior thereto associated with AFC and its subsidiaries in various executive capacities for more than the past five years	1981	-
Daniel J. Manella	57	Executive Vice President of Rapid since February 1981; Chairman of the Board of Kenton from September 1978 to January 1981, and Chief Executive Officer of Kenton from February 1979 to January 1981; Chairman of the Board, President and Chief Executive Officer of McGregor since May 1981; Chairman of the Board of the Botany Shirt Division of Rapid since February 1979; prior thereto President and Chief Executive Officer of the Botany Shirt Company from 1975 through January 1979	1980	1981
Dan Palmon(b)(c)	41	Associate Professor of Accounting, Rutgers University since September 1980; prior thereto Assistant Professor of Accounting, New York University, Graduate School of Business, for more than five years	1979	-

<u>Name</u>	<u>Age</u>	<u>Principal occupation and related information</u>	<u>Served as director since</u>	<u>Served as officer since</u>
Ira D. Riklis(a)	28	President of Ice Cream Ira's Inc. and Specialty Store Group, Inc., which are engaged in the operation of retail food services since 1979; Vice President of Product Development of ARG from January 1978 to October 1979	1981	-
Marcia Riklis(a)	32	Vice President of Rapid since May 1980; Assistant to the Chairman of Rapid from October 1977 to May 1980; Director of AITS, Inc. ("AITS"), hotel and casino in Las Vegas, Nevada, for more than the past five years	1981	1980
Meshulam Riklis(a)	59	Chairman of the Board and Chief Executive Officer of Rapid for more than the past five years, and President since September 1980; Chairman of the Board of McCrory since June 1981 and President since March 1982, prior thereto Vice Chairman of the Board of McCrory from May 1977 to June 1981; Chairman of the Board of Schenley since January 1982; Co-Chairman of the Board and President of AITS for more than the past five years	1955	1955
Leo D. Stone(b)(c)	68	Financial Consultant; Lecturer in Finance, University of South Florida, from September 1974 to June 1981; Director of The Sorg Paper Company since 1971 and Chairman of the Board of Central Reserve Life Corporation since 1971	1979	-
Helen H. Updike(b)	42	Chairperson, Department of Economics and Geography, Hofstra University since September 1981; Assistant Professor of Economics, Hofstra University from September 1978	1979	-

<u>Name</u>	<u>Age</u>	<u>Principal occupation and related information</u>	<u>Served as director since</u>	<u>Served as officer since</u>
Stuart H. Aarons	72	Secretary of Rapid for more than the past five years	-	1972
Bernard J. Blaney	59	Vice President and Treasurer of Rapid and Director and Vice President-Finance of McCrory for more than the past five years	-	1976
Michael J. Magenheim	41	Controller and Assistant Treasurer of Rapid for more than the past five years	-	1972

- (a) Member of the Executive Committee.
- (b) Member of the Transaction Review Committee.
- (c) Member of the Audit Committee

There are no family relationships among any of the directors or executive officers of Rapid, except that Mona R. Ackerman, Marcia Riklis and Ira D. Riklis are Meshulam Riklis' children and Carl H. Lindner, III and S. Craig Lindner are Carl H. Lindner's sons.

The term of office of each director expires at the next annual meeting of Rapid's stockholders or when such director's successor is elected and has duly qualified. Except for the members of the Transactions Review Committee of the Board of Directors, there are no arrangements or understandings between any of the directors of Rapid and any other person pursuant to which such person was selected as a director of Rapid (see Item 3 - "Legal Proceedings - Securities and Exchange Commission"). For a description of the proposed agreement between Riklis Family Corporation and AFC regarding the voting of their shares of Rapid Common Stock, see Item 12 - "Security Ownership of Certain Beneficial Owners and Management". Members of the Transaction Review Committee each receive \$36,000 per annum for serving as directors and members of such Committee and the Chairman of the Committee receives \$40,000 per annum. Carl H. Lindner receives \$50,000 per month for serving as a director and a Vice Chairman of the Board. Mona R. Ackerman, Marcia Riklis, Ira D. Riklis, Carl H. Lindner, III and S. Craig Lindner each receive \$120,000 per annum for serving as directors and as members of the Executive Committee of the Board of Directors. None of the other directors of Rapid receives any compensation for serving as a director. Each of the executive officers of Rapid holds office at the pleasure of the Board of Directors. There are no arrangements or understandings between any of the executive officers of Rapid and any other person pursuant to which such person was selected as an executive officer of Rapid.

During the past five years, neither Rapid nor any of its officers or directors has been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors). Except as set forth in Item 3 - "Legal Proceedings - Securities and Exchange Commission", and except as set forth below, neither Rapid nor any of its officers or directors was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction whereby such party was or is subject to a judgment, decree or final order enjoining further violations of, or prohibiting activities subject to, Federal or state securities laws or finding any violation of such laws during the past five years.

In connection with an action instituted by the SEC against AFC, Carl H. Lindner and others filed in the Federal District Court for the District of Columbia (Case No. 79-1701), AFC and Carl H. Lindner entered into a consent decree on July 2, 1979, without admitting or denying the allegations in the SEC complaint. This consent decree enjoins them from violations of certain of the antifraud, reporting and proxy provisions of the Federal securities laws which include prohibitions against making misstatements or omitting to state material facts in certain reports or documents issued or filed by AFC. The SEC complaint alleged violations by each defendant of Section 17(a) of the Securities Act of 1933, and Sections 10(b), 13(a), and Schedule 14A of the Securities Exchange Act of 1934 and Rule 10b-5 and other rules thereunder in connection with various transactions, certain of which were alleged in the SEC complaint not to be in the ordinary course of business and certain of which transactions were alleged not to have been disclosed, including among other things, undisclosed financial transactions by or involving AFC and its subsidiaries, and Mr. Lindner, certain officers and directors (and their relatives) of such companies, including loans to officers, directors and related parties, certain transactions between businesses owned by Mr. Lindner and AFC. With respect to these matters, Mr. Lindner has paid AFC \$1,400,000, the amount required by the consent decree.

Item 11. Management Remuneration.

The following table sets forth for the fiscal year ended January 31, 1983 the remuneration of the five most highly compensated executive officers and directors of Rapid and the remuneration of all directors and officers as a group:

<u>Name of individual or number of persons in group</u>	<u>Capacities in which served</u>	<u>Securities or property, Salaries, insurance fees, benefits directors' fees, reimbursement, contingent commissions, personal and bonuses</u>	<u>Aggregate or of forms of remuneration (1)</u>	<u>(2)</u>
Meshulam Riklis	Chairman of the Board, President and Chief Executive Officer of Rapid and McCrory	\$1,134,990	\$ 22,944	\$ 25,000
Daniel J. Manella	Chairman of the Board and Chief Executive Officer of McGregor and Executive Vice President of Rapid	600,000	22,528	-
Howard S. Feldman	President and Chief Operating Officer of Schenley	525,000	8,531	-
Harold S. Divine	Vice Chairman of the Board of Rapid and Senior Executive Officer of McCrory	475,000	23,770	7,554
Ben Litwak	Chairman and Chief Executive Officer of McCrory Stores Division	463,060	6,147	86,074
All directors and officers as a group (22)		5,079,741	230,633	217,487

(1) Primarily insurance benefits. Does not include interest differential with regard to loans made at less than current prime rates (see Item 13 - "Certain Relationships and Related Transactions" below).

(2) The amounts shown are for contractual retirement allowances and deferred compensation and do not include contributions to the defined benefit pension plans of Rapid and its subsidiaries.

Of the 22 directors and officers as a group, nine participate in pension plans sponsored by subsidiaries of Rapid. Messrs. Riklis, Manella and Divine and four others participate in a McCrory corporate plan. Mr. Feldman participates in a Schenley plan and Mr. Litwak participates in a McCrory Stores plan. All of these plans are "career-average" salary plans in which the annual benefit is determined by a summation of a certain percentage of compensation for each year of credited service.

The McCrory corporate plan is a noncontributory defined benefit pension plan. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of \$15,000 plus 1.5% of such average compensation in excess of \$15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is \$90,000. The estimated annual benefits payable at retirement at normal retirement age as a straight life annuity to Messrs. Riklis, Manella and Divine are \$136,425, \$62,100 and \$38,870, respectively. As a result of the Tax Equity and Fiscal Responsibility Act of 1982, normal retirement benefits are subject to a maximum of the greater of \$90,000 or the individual's accrued benefit at December 31, 1982. Mr. Riklis had an accrued benefit of \$136,425 as of December 31, 1982 and will therefore retain the right to receive this benefit. Mr. Riklis had 27 years of credited service at January 31, 1983. The current remuneration covered by this plan for Messrs. Manella and Divine is \$699,346 and \$406,357, respectively, and their credited years of service as of January 31, 1983, were eight and six years, respectively.

The Schenley plan is a noncontributory defined benefit pension plan. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of \$13,000 plus 1.5% of such average compensation in excess of \$13,000 for each year of participation up to January 1, 1980 plus 1.2% of compensation up to the Social Security Wage Base and 1.7% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. The compensation covered by this plan is base salary. The maximum annual benefit currently provided under this plan is \$90,000. The estimated annual benefit payable at retirement at normal retirement age as a straight life annuity to Mr. Feldman is \$84,000. His current remuneration covered by this plan is \$300,000, and his credited years of service as of January 31, 1983 was 24 years.

The McCrory Stores plan is a noncontributory defined benefit pension plan. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of \$15,000 plus 1.5% of such average compensation in excess of \$15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is \$50,000. The estimated annual benefit payable at retirement, as a straight life annuity to Mr. Litwak is

\$50,000. Mr. Litwak reached normal retirement age in July 1980 and will not accrue any additional benefits under this plan.

The following table sets forth the estimated annual benefits payable upon normal retirement to persons in specified remuneration and years-of-service classifications. The retirement benefits are based upon retirement at age 65 under current benefit formulas and payment of a single-life annuity to the employee using the 1983 level of the Social Security Wage Base.

Covered Earnings During Each Year of Employment	Years of Service and Annual Pension Plan Benefits											
	10 Years			20 Years			30 Years			40 Years		
	(In Thousands)											
\$100,000..	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
200,000..	13	15	13	26	30	26	40	46	40	53	61	50
300,000..	28	32	28	56	64	50	85	90	50	90	90	50
400,000..	43	49	43	86	90	50	90	90	50	90	90	50
500,000..	58	66	50	90	90	50	90	90	50	90	90	50
600,000..	73	83	50	90	90	50	90	90	50	90	90	50
	88	90	50	90	90	50	90	90	50	90	90	50

(1) McCrory corporate plan.

(2) Schenley plan.

(3) McCrory Stores plan.

The benefits shown above are not subject to any deduction for Social Security or other benefits. In addition to the benefits available upon retirement at age 65, these plans also provide for pre-retirement surviving spouse benefits, disability and early retirement benefits, and for vesting upon completion of 10 years of service.

The following table sets forth at January 31, 1983 the maximum estimated retirement benefits (including contractual obligations) payable to the persons and group specified in the remuneration table above:

Name of individual or number of persons in group	Estimated annual retirement benefits		
	Pension Plans	Employment Contracts	Total
Meshulam Riklis	\$136,425	-	\$136,425
Daniel J. Manella	62,100	-	62,100
Howard S. Feldman	84,000	-	84,000
Harold S. Divine	38,870	\$ 31,130	70,000
Ben Litwak	50,000	40,000	90,000
All directors and officers as a group (22)	590,097	196,507	786,604

In order to facilitate the performance of their business duties, Rapid provides certain of its officers and directors with the use of corporate owned or leased automobiles, aircraft and hotel accommodations and certain club memberships.

Employment Agreements

Meshulam Riklis

Effective November 20, 1982, Rapid entered into an employment contract with Mr. Riklis, as Chief Executive Officer, for a period of five years. The contract provides for an annual salary of \$600,000, plus incentive compensation at the rate of 1% of Rapid's Net Income (as defined) in each fiscal year. Such \$600,000 annual salary is payable in any event, even if Mr. Riklis' employment is terminated by death, disability or discharge with or without cause. This contract supersedes all previous contracts, with the exception of a contract with McCrory, which provides that under certain circumstances Mr. Riklis would receive from McCrory a retirement allowance of \$15,000 per year. The contract provides for deferred compensation to be earned at the rate of not less than \$50,000 per year, payable following termination of Mr. Riklis' employment. The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Riklis' employment at the rate of \$100,000 per year, and upon Mr. Riklis' death, payments will continue to his surviving widow, if any, at the rate of \$50,000 per year for her life; any pension plan benefits are deducted, and payments are subject to other limits and restrictions on competition with Rapid, and are reduced by the receipt of disability payments. As a condition to such retirement payments Mr. Riklis must be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Riklis and his surviving wife forfeit their retirement benefits if, within one year after termination of employment, Mr. Riklis engages directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event Mr. Riklis becomes incapacitated during employment, and should such incapacity continue until termination of his employment, Mr. Riklis is to receive disability benefits at the rate of \$100,000 per year for life, less any amounts earned from other employment. In the event of Mr. Riklis' death, his widow or his surviving children or his estate is to receive death benefits of \$500,000, plus one year's incentive compensation (in addition to the incentive compensation earned by, but not yet paid to, Mr. Riklis prior to his death) payable over a 10 year period. The contract provides that certain insurance policies owned by Rapid shall be assigned to Mr. Riklis. Rapid will continue to pay the premiums on such policies, and may apply the cash surrender value of the policies to the payment of such premiums.

As an inducement to enter into the contract, Rapid agreed to make certain loans to Mr. Riklis in the aggregate principal amount of \$25,000,000. For a description of such loans, see Item 13 - "Certain Relationships and Related Transactions", paragraph 19.

Daniel J. Manella

Mr. Manella, an Executive Vice President and director of Rapid and a Senior Executive of McCrory, is employed under an employment contract with McCrory effective February 1, 1981 through January 31, 1989. The contract supersedes all prior contracts with McCrory and Rapid. The contract provides for an annual salary of not less than \$350,000 a year and a bonus of

\$1,000,000 payable in four annual instalments of \$250,000 each which commenced in January 1982. If Mr. Manella dies before the entire bonus has been paid, the remaining instalments will be paid to his designees or to his estate. If Mr. Manella terminates his employment before the entire bonus is paid, with or without cause, the remaining instalments of the bonus are forfeited. If Mr. Manella becomes incapacitated for a period of at least 11 consecutive months, and his employment is terminated, he will receive disability benefits of \$5,000 a month until his death or recovery, less disability payments under any disability benefit plans. If Mr. Manella dies while employed and is survived by his present wife, she will receive monthly retirement benefits of \$2,600 a month beginning when Mr. Manella dies or when he would have become 60 years of age (whichever happens later), until her death, less any pension plan benefits. Mr. Manella forfeits any remaining bonus payments and disability benefits, and his wife forfeits her monthly retirement benefits, if Mr. Manella within two years after termination of his employment engages directly or indirectly, in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Manella is discharged for serious misconduct. Deferred compensation of \$100,000 earned by Mr. Manella under a prior employment agreement with Rapid will be paid in 60 equal monthly instalments beginning when Mr. Manella's employment ends or when he becomes 60 years old, whichever occurs first.

Howard S. Feldman

Mr. Feldman, President and Chief Operating Officer of Schenley, is employed under an employment contract with Schenley through February 28, 1985. Mr. Feldman has the right, under prescribed circumstances, to terminate his obligation to render full time employment and thereupon Mr. Feldman is to serve as a consultant to Schenley until the expiration of the term of the contract. During the consultation period, Mr. Feldman is restricted from engaging in competitive activities and is required to be available for consultation to Schenley for not more than 12 days in any quarterly period. Mr. Feldman's salary is at the rate of not less than \$300,000 per year, except that during the consultation period it is reduced to \$150,000 per year. In the event of Mr. Feldman's disability for a period of at least nine consecutive months, Schenley may reduce Mr. Feldman's salary by one half. The contract provides for the payment, upon Mr. Feldman's termination of employment, of a retirement allowance for life at the rate of \$65,000 per year, one half of such amount to be paid to Mr. Feldman's surviving widow, if any, for her life if Mr. Feldman dies after termination of his employment. All retirement payments (a) are to be reduced by the annual amount to which Mr. Feldman or his wife becomes entitled pursuant to any pension, retirement or similar plan of Schenley and (b) are conditioned on Mr. Feldman not engaging in any competitive activity and being available for consultation for not more than 12 days a year. The contract also provides for a death benefit, in the event Mr. Feldman dies while employed by Schenley, in the sum of \$350,000, payable in 10 equal annual instalments. For a period of two years after the termination of Mr. Feldman's employment, he may not participate in the ownership or the operation of any competitive business or employ any individual who was employed by Schenley or its subsidiaries at any time during the two year period prior thereto.

Mr. Divine, a Vice Chairman of the Board of Rapid and a director of McCrory, is employed as a senior executive under a five year employment contract with McCrory effective February 1, 1980. The contract provides for an annual salary of not less than \$300,000. The contract also provides for the payment of an annual retirement allowance for life of \$70,000 if Mr. Divine's employment continues to January 31, 1985 or if he is terminated at any time by reason of his disability. Upon Mr. Divine's death the retirement payments will continue to his surviving widow, if any, at a rate equal to 50% of his retirement allowance. McCrory may, in its discretion, terminate the retirement allowance of Mr. Divine and his surviving wife if, within two years after termination of Mr. Divine's employment, he engages directly or indirectly in any activity competitive with the business of McCrory or any of its affiliated companies or if Mr. Divine is discharged for serious misconduct. Certain pension plan benefits and disability payments would be deducted from the retirement allowance. If Mr. Divine becomes incapacitated for a period of 11 consecutive months, the contract provides for disability payments of \$70,000 per year. Additionally, in the event of Mr. Divine's death an amount equal to 125% of his annual base salary at the time of his death would be payable over a 10 year period to his widow or his estate. Mr. Divine is authorized to devote a reasonable amount of business time to his personal business, consisting of a wholly-owned sales and marketing company, engaged in the distribution of various consumer products to third parties who are unaffiliated with Rapid or any of its subsidiaries, and in the management of his personal investments.

Ben Litwak

Mr. Litwak is employed by McCrory as Chief Executive Officer of its McCrory Stores Division through January 31, 1987 under a contract effective November 30, 1982 at an annual salary of not less than \$200,000. The contract supersedes all other employment contracts between Mr. Litwak and McCrory. Mr. Litwak also receives incentive compensation at the rate of 1% of the Before-Tax Earnings (as defined) of the McCrory Stores Division in excess of \$20,000,000 for each fiscal year up to a maximum incentive compensation of \$300,000 in each fiscal year. Deferred compensation of \$62,500 earned under a prior employment agreement will be paid to Mr. Litwak, or after his death to his designees or estate, in 30 equal monthly instalments beginning when his employment ends. If Mr. Litwak becomes incapacitated for a period of at least 11 consecutive months, his employment may be terminated. The contract provides for the payment of a retirement allowance to Mr. Litwak of \$90,000 a year for life beginning after the termination of his employment, less certain pension payments. Upon Mr. Litwak's death during or after the termination of his employment by McCrory, his present wife, if she survives him, or certain other persons if she does not, will be paid a retirement allowance of \$45,000 a year, less certain pension payments. If Mr. Litwak dies while employed, his base salary for six months will be paid in 60 equal monthly instalments to his present wife, if she survives him, or to certain other persons if she does not. In addition, upon the termination of the contract or upon Mr. Litwak's death or disability during his employment, McCrory shall pay to Mr. Litwak, or his present wife, if she survives him, or certain other persons if she does

not, \$600,000. All unpaid incentive compensation, deferred compensation, retirement benefits and death benefits are forfeited by all persons if Mr. Litwak within one year after the termination of his employment engages directly or indirectly in any activity competitive with the McCrory Stores Division or if Mr. Litwak is discharged for serious misconduct.

In connection with the contract, Mr. Litwak borrowed \$300,000 from McCrory, which is evidenced by a noninterest bearing promissory note payable at the earlier of January 31, 1987, or the termination of Mr. Litwak's employment for any reason.

Leonard C. Lane

Mr. Lane, a director of Rapid, was employed as a senior executive officer under an employment agreement (the "Employment Agreement") with Rapid, at an annual salary of not less than \$240,000, which was terminated on March 31, 1982. Effective October 19, 1978, the Employment Agreement was amended to provide for incentive compensation in each year, commencing January 1, 1978, to the extent of (i) 10% of the annual Operating Profits (as defined) of ILC, in excess of \$885,544, and (ii) commencing January 1, 1979 2-1/2% of the Depreciation (as defined) of ILC Services, the equipment leasing division of ILC, up to a maximum of Mr. Lane's annual salary. The Employment Agreement also provided for the payment of a retirement allowance for life following the termination of his employment at the rate of \$60,000 per year; certain pension plan benefits were to be deducted, and payments were subject to other limits and restrictions on competition with Rapid, and were to be reduced by receipt of disability payments. As a condition to such retirement payments, Mr. Lane had to be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Lane would have forfeited his retirement benefits if, within one year after termination of employment, he engaged directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event that Mr. Lane became incapacitated for 11 consecutive months, Mr. Lane's employment could have been terminated, in which event, he was to receive disability benefits at the rate of \$60,000 per year for life, less any amounts earned from other employment. In the event of his death, his widow or his surviving children, if any, or his estate was to receive death benefits of \$335,000, payable over a 10 year period. Mr. Lane was authorized to devote a reasonable amount of business time to his personal investments and to consultation in the public or private educational field. Under the Employment Agreement, Mr. Lane had earned an aggregate of \$336,250 in deferred compensation as of January 31, 1982. Pursuant to the settlement of a stockholders' derivative action (see Item 3 - "Legal Proceedings-Litigation Related to Compensation and Other Matters" above), Mr. Lane relinquished the right to \$45,000 in annual deferred compensation under the Employment Agreement for a five year period commencing April 1978.

In accordance with an agreement (the "Severance Agreement"), dated February 3, 1982, the Employment Agreement and Mr. Lane's employment by Rapid were terminated on March 31, 1982. The Severance Agreement provides that (i) Mr. Lane will continue to participate in Rapid's medical plan until the earlier of March 31, 1992 or his death, (ii) in lieu of the retirement benefits provided for by the Employment Agreement, Mr. Lane will receive monthly retirement benefits at the rate of \$100,000 per year for his life and

upon his death, the monthly retirement benefits will continue to his present wife, if she survives him and is married to him at the time of his death, during her life at the rate of \$50,000 per year, (iii) if Mr. Lane dies prior to March 31, 1992 and his wife does not survive him the monthly retirement benefits at the rate of \$50,000 per year shall be paid to Mr. Lane's estate until March 31, 1992, (iv) the deferred compensation under the Employment Agreement will be paid to Mr. Lane or his estate in 60 equal monthly instalments commencing April 30, 1982 and (v) for a period of one year from March 31, 1982, Mr. Lane will not compete with Rapid or its subsidiaries.

Arie Genger

Mr. Genger, a director of Rapid, entered into an employment agreement (the "Employment Agreement") with McCrory which was terminated on January 31, 1982. The Employment Agreement provided for Mr. Genger to be employed as an executive through January 31, 1987, at an annual salary of not less than \$200,000, which increased by \$25,000 at the end of each two year period during the initial term of the Employment Agreement. McCrory was obligated under the Employment Agreement to pay Mr. Genger a bonus of not less than \$35,000 for the fiscal year ended January 31, 1982, and not less than \$10,000 for the fiscal years ending January 31, 1983 and January 31, 1984. The Employment Agreement was automatically renewable for two periods of five years through January 31, 1997, unless 12 months' prior notice of intention not to renew was given by either party prior to the end of the initial seven year term or the extended five year term. In the event Mr. Genger's employment was terminated because of incapacity, he was to receive \$50,000 per year for life, which was to be adjusted for cost of living increases and reduced by any payments under McCrory's disability plan. The Employment Agreement provided for a retirement allowance ranging from \$45,000 to \$80,000 depending upon the length of Mr. Genger's employment, reduced by any pension payments. In the event Mr. Genger died while he was employed or while he was receiving the retirement allowance, Mr. Genger's widow would have received 50% of the retirement allowance during her lifetime. Mr. Genger and his surviving wife would have forfeited their retirement benefits if within one year after termination of employment, Mr. Genger engaged directly or indirectly in any business competitive with the business of McCrory or any of its affiliated companies or if Mr. Genger was discharged for serious misconduct. In addition, McCrory was required to keep in effect \$2,000,000 of life insurance (the "Life Insurance") on Mr. Genger's life through January 1987, at which time Mr. Genger or his designee could have acquired the policy. The beneficiary of such policy was designated by Mr. Genger. To acquire the policy, Mr. Genger or his designee would have been obligated to deliver to McCrory a promissory note in the amount of approximately \$81,000 payable January 10, 1989, and designate McCrory as beneficiary of the policy to the extent of approximately \$92,000.

In accordance with an agreement (the "Severance Agreement"), dated December 1, 1981, the Employment Agreement and Mr. Genger's employment by McCrory were terminated on January 31, 1982. The Severance Agreement provides that (i) McCrory keep the Life Insurance in force and effect in accordance with the terms of the Employment Agreement, (ii) Mr. Genger will continue to participate in McCrory's medical plan for medical services rendered in the United States until the earlier of January 31, 1997 or his death, (iii) Mr.

Genger will receive monthly retirement benefits at the rate of \$45,000 per year for his life and upon death the monthly retirement benefits will continue to his widow, if she is married to him at the time of his death, during her life at the rate of \$22,500 per year, (iv) if Mr. Genger becomes physically or mentally disabled for a period of at least three consecutive months during the period through January 31, 1987, he shall be entitled to receive monthly disability payments as computed in the Employment Agreement for his life or until the disability or incapacity ends, and (v) for a period of one year from January 31, 1982, Mr. Genger will not compete with McCrory, Rapid or any of their subsidiaries in which he was involved during his employment under the Employment Agreement.

Bernard J. Blaney

Mr. Blaney, Vice President - Finance, Treasurer and a director of McCrory and Vice President and Treasurer of Rapid, entered into a contract with McCrory effective July 1, 1981, to be employed as an executive through June 30, 1986, which is automatically renewable for an additional period of five years unless six months' prior notice of intention not to renew is given by either party. The contract superseded all prior contracts with McCrory and Rapid. The contract provides for an annual salary of not less than \$250,000. If Mr. Blaney becomes incapacitated for a period of at least 11 consecutive months, his employment may be terminated, in which event he is to receive disability benefits at the rate of \$50,000 per year, subject to certain reductions, until his 65th birthday. The contract also provides for the payment of a retirement allowance of \$40,000 per year, less pension benefits, for life commencing at age 65 (or earlier upon disability), if the term of employment ends on June 30, 1986. In the event the contract is renewed for an additional period of five years the retirement allowance is increased to \$50,000 per year. Upon Mr. Blaney's death his present wife, if she survives him, is to receive 50% of the retirement allowance during her lifetime. McCrory may, in its discretion, terminate the retirement allowance if, within one year after termination of Mr. Blaney's employment, he engages directly or indirectly in any activity competitive with the business of McCrory or any of its affiliated companies or if Mr. Blaney is discharged for serious misconduct. After the termination of Mr. Blaney's employment he shall be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information with respect to persons known by management to own beneficially more than 5% of any class of voting securities of Rapid, as of April 15, 1983:

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Shares Beneficially Owned</u>	<u>Percent of Class</u>
Common Stock	Riklis Family Corporation (a) 888 Seventh Avenue New York, NY 10106	1,461,364	60%
	American Financial Corporation (b) One East Fourth Street Cincinnati, OH 45202	974,243	40%

(a) Meshulam Riklis is the beneficial owner of 100,000 shares of senior voting preferred stock of Riklis Family Corporation, the ownership of which constitutes voting control thereof. Trusts for the benefit of Mr. Riklis' descendants (including Mona R. Ackerman, Marcia Riklis and Ira D. Riklis, who are directors of Rapid) own the remaining equity interest in Riklis Family Corporation.

(b) Carl H. Lindner (director and Vice Chairman of the Board of Rapid) is the beneficial owner of 50.5% of the outstanding common stock of AFC, the ownership of which constitutes voting control thereof. The balance of the common stock of AFC is owned by members of Mr. Lindner's family (including Carl H. Lindner, III and S. Craig Lindner, who are directors of Rapid) and trusts for their benefit.

As a result of the Merger (see "Introductory Note" above), Rapid became a privately held corporation, and except as set forth herein, the directors and officers of Rapid do not own any of Rapid's equity securities or any equity securities of any Rapid subsidiaries. On March 2, 1982, Rapid redeemed all of its outstanding Redeemable Preferred Stock. Prior to the redemption, AFC owned 106,625 shares of Rapid Redeemable Preferred Stock, which constituted 90% of the class. During February 1981, Riklis Family Corporation granted an option to purchase up to 97,424 shares of Rapid Common Stock (approximately 4% of the class) to a partnership, of which Abraham G. Levin, a director of Rapid, is the managing partner, composed of certain partners (and members of their families) of the law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid. Mr. Levin is the senior partner of Messrs. Rubin Baum Levin Constant & Friedman. The option is exercisable for a period of 30 years from the date of grant (subject to earlier termination upon a disposition by Riklis Family Corporation of its shares of Rapid Common Stock) at an exercise price of \$30.79 per share. The rights under the option are subject to the security interests granted to certain banks in the shares of Rapid Common Stock owned by Riklis Family Corporation (see the description of such security interests below in this Item 12).

In connection with the Merger, Riklis Family Corporation, AFC and Rapid have agreed to enter into a stockholders' agreement relating to the Rapid Common Stock, which will principally reflect the following:

1. Neither Riklis Family Corporation nor AFC will sell or dispose of any of its Rapid Common Stock without affording the other stockholders and Rapid the right of first refusal on the same terms to acquire such shares; provided, however, that Riklis Family Corporation shall be entitled to sell or dispose of up to an aggregate of 9% of the total outstanding shares of Rapid Common Stock (to a limited number of persons all of whom will have agreed to join in the stockholders' agreement) without affording AFC and Rapid the right of first refusal (see the description above of the option to purchase shares of Rapid Common Stock granted by Riklis Family Corporation).
2. Riklis Family Corporation will agree that if it sells shares of Rapid Common Stock (other than sales of up to an aggregate of 9% of the total outstanding shares) it will obtain from the purchaser an option in favor of AFC to sell the same proportion of the shares of Rapid Common Stock owned by AFC on the same per share terms as the shares sold by it.
3. So long as AFC continues to own at least 15% of the total outstanding shares of Rapid Common Stock, Rapid will not issue additional shares of Rapid Common Stock without affording AFC and Riklis Family Corporation preemptive rights to ensure each of them the ability to own sufficient shares of Rapid Common Stock to retain their then respective percentage ownership of Rapid Common Stock.
4. AFC and Riklis Family Corporation will agree to vote their shares of Rapid Common Stock to elect the members of the Transaction Review Committee to the Board of Directors of Rapid until at least August 15, 1984 (see Item 3 - "Legal Proceedings - Securities and Exchange Commission" above).
5. AFC will have the right at any time to cause Rapid to purchase all, but not less than all of the shares of Rapid Common Stock owned by AFC in the following manner. Unless the parties otherwise agree, AFC and Riklis Family Corporation shall each select an arbitrator (which shall be a nationally recognized investment or commercial bank or accounting firm), which arbitrators shall, if they are unable to agree on the terms of the purchase, select a third arbitrator. The third arbitrator shall value the shares of AFC's Rapid Common Stock and determine the purchase price for such shares; provided, however, that the consideration to be paid and the method of payment

for such shares must comply with certain restrictions relating to the repurchase of shares of Rapid capital stock contained in the indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006 (for a description of such restrictions see Item 5 - "Market for the Registrant's Common Stock and Related Security Holder Matters" above). The decision reached in the arbitration shall be final and binding upon the parties.

6. Upon the death, permanent disability or mental incapacity of Meshulam Riklis or his failure or inability, by reason of sale or otherwise, to maintain majority voting control, directly or indirectly, of Rapid Common Stock, AFC shall have the right to cause Rapid to purchase all, but not less than all, of the shares of Rapid Common Stock owned by it by giving notice to Rapid and Riklis Family Corporation that it desires Rapid to purchase such shares setting forth a per share price, method of and the security, if any, for payment. For a period of ninety (90) days following the notice, Riklis Family Corporation shall have the right to cause Rapid to purchase all, but not less than all, shares of Rapid Common Stock owned by it in lieu of purchasing the shares of AFC, on the same terms specified in AFC's notice. The terms of any purchase must comply with the restrictions described in paragraph 5 above.

Rapid has been advised that Mr. Riklis has borrowed money from Seattle-First National Bank ("Seattle"), which obligation has been assumed by Mr. Riklis' wholly-owned entity, is payable in instalments through 1984, and bears interest at a rate related to the bank's prime rate; provided, however, that at any time Seattle has the right to demand payment of the loan. The loan is secured by a security interest in all of the shares of Rapid Common Stock owned by Riklis Family Corporation, and the senior voting preferred stock of Riklis Family Corporation. In addition, Rapid has been advised that Mr. Riklis has entered into an agreement with Chemical Bank ("Chemical") which restructured and restated Mr. Riklis' outstanding indebtedness to Chemical. The indebtedness is payable on December 31, 1985, with the portion representing principal, bearing interest at a fixed rate which is less than the current prime rate, and with the portion representing accrued interest not bearing additional interest. If there is an event of default under the agreement, the entire indebtedness would bear interest at Chemical's prime rate. Subject to the prior security interest of Seattle, Chemical was granted a security interest in the securities pledged to Seattle. In addition, Chemical was granted a security interest in certain other collateral. In the absence of a default of Mr. Riklis' obligations to Seattle or Chemical, Riklis Family Corporation has the right to vote the shares of Rapid Common Stock held as collateral. In connection with the restructuring of Mr. Riklis' indebtedness, Chemical granted an option to AFC which provides that if an event of default occurs under the agreement, Chemical would notify AFC which would then have the right to acquire at the face value thereof Chemical's claims against Mr. Riklis together with the collateral securing such claims.

In the event of a default in the repayment of Mr. Riklis' obligations to either Seattle or Chemical, any resulting foreclosure upon the shares of Rapid Common Stock could result in a change of control of Rapid.

Chemical is the Agent Bank under McCrory's Credit Agreement, dated as of June 19, 1981, and Seattle is a lender to McCrory. Reference is made to Note 6 to Financial Statements for a description of the McCrory Credit Agreement.

Item 13. Certain Relationships and Related Transactions.

1. Mr. Riklis owns all of the capital stock of KGA Industries, Inc. ("KGA"), and Mr. Riklis and Daniel J. Manella are directors of KGA. A division of KGA is a manufacturer of ladies fashion belts. In calendar year 1982, purchases by subsidiaries of Rapid of merchandise from such division, all of which were made in the ordinary course of business, totalled approximately \$1,080,000 (which constituted approximately 52% of such division's sales for such year). In the opinion of management, the purchases of merchandise from KGA were made at prices comparable to those that would be obtained in similar transactions with unrelated parties.

2. In connection with the termination on January 31, 1978 of two shopping center leases by McCrory and Lerner in Springfield, Virginia, the lessor, Franconia Associates, a partnership in which Mr. Riklis is the principal partner, became indebted to McCrory for \$308,903 and to Lerner for \$110,347. As of January 31, 1983, the indebtedness to McCrory and Lerner was \$206,484 and \$73,820, respectively, payable in 28 constant quarterly payments, bearing interest at the rate of 6% per annum.

3. In July 1976, Mona R. Ackerman, Marcia Riklis and Ira D. Riklis acquired substantially all of the beneficial interest in a shopping mall located in Phoenix, Arizona. The mall, which contains approximately 595,000 square feet of floor space, includes a McCrory variety store occupying approximately 31,400 square feet of floor space with a minimum annual rental of \$44,000, and a Lerner store occupying approximately 9,400 square feet of floor space with a minimum annual rental of \$21,232. The leases were each entered into during 1963, expire in 1988 and contain one five year renewal option. The respective leases provide that McCrory and Lerner pay a proportionate share of taxes and operating expenses. In addition, the McCrory and Lerner leases provide for additional payments of 4% of gross sales (as defined), less the minimum annual rent, taxes and operating expenses. During the year ended January 31, 1983, McCrory's aggregate rental payment was approximately \$81,000 and Lerner's aggregate rental payment was approximately \$24,000. Such rentals constituted approximately 4-1/2% of the gross rental income of the shopping mall for such year. These leases are, in the opinion of the respective managements of McCrory and Lerner, on terms comparable to those prevailing generally for similar space in the area.

4. Effective April 1, 1981, Whimsy, Incorporated ("Whimsy"), a subsidiary of McCrory, assigned leases on five of its retail stores, which had previously been closed, to Specialty Store Group, Inc. ("Specialty"), a corporation whose principal stockholder and Chief Executive Officer is Ira D. Riklis. In

addition, Whimsy granted an exclusive license to Specialty to use Whimsy's trademarks and trade names and leased to Specialty the equipment located in the five Whimsy stores and certain other equipment used in the Whimsy operation. In consideration therefor, Specialty agreed to pay to Whimsy a fee of 8% of its gross sales (as defined) from the five Whimsy stores, 4% of gross sales from any other stores hereafter operated by Specialty under the Whimsy name, together with 4% of the gross sales of any products sold under the Whimsy name at other locations. Specialty has paid a fee to McCrory for the period from April 1, 1981 through March 31, 1982 (Specialty's fiscal year) in the amount of \$37,000. In connection with such transaction, Rapid loaned Specialty \$500,000 which is repayable in five annual instalments commencing March 31, 1982 of \$25,000 (paid), \$50,000 (paid), \$75,000, \$100,000 and \$250,000, respectively, bearing interest at the prime rate payable quarterly. McCrory has been advised that by November 1982, Specialty closed all of the Whimsy locations.

5. On November 1, 1981, Rapid exercised an option and completed the acquisition of the stock of ARG from Hamilton Corporation ("Hamilton") for approximately \$6,500,000. When the option was granted Mr. Riklis and his children owned 49% of the capital stock of Hamilton, and, prior to its purchase by Hamilton, Mr. Riklis owned all of the capital stock of ARG through a wholly-owned corporation. During September 1981, Mr. Riklis and his children sold their shares of capital stock of Hamilton to the holder of the balance of the shares. Hamilton acquired the capital stock of ARG on February 2, 1981 for \$6,000,000, evidenced by a promissory note payable on October 31, 1981, and guaranteed the payment of certain bank indebtedness and certain other indebtedness.

Rapid, ARG and Melville have agreed to sell to World Wide Distributors, Inc. ("World Wide"), a wholly-owned subsidiary of KGA, see paragraph 1 above, on or about July 31, 1983, all of the assets of ARG (which include the assets of Plastic Toy) and of Melville (see Item 1 - "Business - Operations Held for Sale to Stockholders and Affiliates"). In consideration for the sale of the assets, World Wide will pay \$13,500,000 in cash and assume all of ARG's and Melville's liabilities. For the accounting treatment afforded the foregoing transactions reference is made to Note 10 to Financial Statements. In connection with the consummation of the foregoing sale of assets and certain other transactions among World Wide, KGA and Mr. Riklis, World Wide will assume and Mr. Riklis will guarantee a demand promissory note to Rapid in the principal amount of \$12,500,000. In addition, World Wide will guarantee Mr. Riklis' obligation to Rapid in the principal amount of \$12,500,000 to be evidenced by a term promissory note (see description of such indebtedness in paragraph 19 below).

6. A corporation of which Abraham G. Levin is the Chief Executive Officer entered into a consulting contract with Rapid effective February 1, 1981 through January 31, 1985 for services relating to non-legal matters. The contract provides for an annual consulting fee of \$300,000 (the first three instalments have been paid), which will be paid for the remaining year even if Mr. Levin ceases to be Chief Executive Officer of such corporation by reason of death or permanent disability.

7. For a description of certain indebtedness of Messrs. Meshulam Riklis, Isidore A. Becker and Leonard C. Lane to Rapid, which arose out of the

settlement of a stockholders' derivative action see Item 3 - "Legal Proceedings - Litigation Relating to Compensation and Other Matters." All such indebtedness has been paid.

8. On March 1, 1979, Kenton entered into agreements with Messrs. Harold S. Divine and Daniel J. Manella, pursuant to which Kenton issued to each such person 25,000 shares of Kenton Common Stock, for a purchase price of \$14.25 per share. Each of them paid \$250 in cash for his shares and delivered to Kenton a promissory note for the balance of the purchase price, which note was initially payable June 30, 1980 and bears interest at a rate of 6% per annum. As security for the note, each of such persons has assigned the proceeds of life insurance policies in an amount equal to at least the lesser of the unpaid balance of his note or \$250,000. As an incentive for such persons to continue serving as executive officers of Kenton, Kenton agreed that if the earnings of Kenton in future years attained certain specified levels Kenton would defer the payment dates under the notes, forgive all or a portion of such payments, grant bonuses in the amount of the principal forgiven, or permit payment of the notes by the delivery to Kenton of the number of shares issued. As a result of Kenton's earnings during fiscal 1979, \$70,000 of indebtedness under each note was forgiven, Messrs. Divine and Manella each became entitled to a cash bonus of \$70,000 (which was paid), and the payment date of principal and interest of each note has been deferred. As a result of the foregoing, at January 31, 1983, Messrs. Divine and Manella were each indebted to Rapid in the principal amount of \$286,000. The parties are discussing a modification of such indebtedness and the bonus arrangement.

9. On February 3, 1982 (reflected in the Financial Statements as of January 31, 1982), Rapid sold its entire common stock interest in ILC (555,054 shares which represented approximately 74% of the outstanding shares) to Meshulam Riklis (333,032 shares) and to Carl H. Lindner (222,022 shares) (see Item 12 - "Security Ownership of Certain Beneficial Owners and Management" above). In payment for the shares of ILC common stock, Messrs. Riklis and Lindner delivered to Rapid their unsecured promissory notes in the aggregate principal amounts of \$3,330,320 and \$2,220,220, respectively, each payable on January 31, 1997, and bearing interest at the rate of 10% per year payable semi-annually. Under certain circumstances the maturity dates of the notes can be extended to August 1, 2006. Simultaneously Mr. Riklis sold, for \$10 per share in cash, 330,000 shares of ILC common stock to Leonard C. Lane (Chairman of the Board of ILC) and 3,032 shares to ILC and Mr. Lindner sold, for \$10 per share in cash, 101,750 shares of ILC common stock to Mr. Lane and 2,022 shares to ILC. During March 1982, as a result of a merger of ILC, pursuant to which the other stockholders of ILC received \$10 per share in cash in exchange for their shares of ILC, 78-1/2% of the outstanding shares of ILC common stock became owned by Mr. Lane and the balance, 21-1/2% of ILC common stock became owned by Mr. Lindner. In addition, Mr. Riklis has the right through February 1987 to buy from Mr. Lane 118,250 shares of ILC common stock (currently representing 21-1/2% of the outstanding shares). In connection with the merger, Rapid's intercompany receivable from ILC of approximately \$7,450,000 was exchanged for approximately 74,500 shares of a newly created ILC redeemable preferred stock. For the accounting treatment afforded the foregoing transaction and the terms of the preferred stock reference is made to Note 3 to Financial Statements.

10. On February 3, 1982 (reflected in the Financial Statements as of January 31, 1982), pursuant to the terms of a loan agreement, Leonard C. Lane borrowed \$6,250,000 from Rapid. The loan is due on August 1, 2006 and bears interest at the rate of 10% per year payable semi-annually. Mr. Lane has secured his obligations under the loan by pledging with Rapid \$6,250,000 principal amount of Rapid 10% Sinking Fund Subordinated Debentures, due August 1, 2006 (the "Debentures"). If there is a default in the payment of interest or principal by Mr. Lane, Mr. Lane has the right to transfer the Debentures to Rapid and thereafter Rapid will have no recourse against him for the interest or principal on the note. At any time after December 31, 1994, Rapid may in its sole and absolute discretion accept the Debentures in whole or in part at their principal amount, including any accrued interest thereon, for sinking fund purposes in satisfaction of the principal amount of the loan.

11. During December 1981, Isidore A. Becker (then Vice Chairman of the Board of Rapid) borrowed \$2,000,000 from Rapid. The loan is unsecured and is evidenced by Mr. Becker's noninterest bearing promissory note payable on demand. Rapid has been advised that the proceeds of the loan were in turn advanced to Hotel Riviera, Inc. ("Hotel Riviera"), a wholly-owned subsidiary of AITS. Mr. Becker and members of his family own approximately 24% of the capital stock and Mr. Riklis owns approximately 50% of the capital stock of AITS (see paragraphs 21 and 22 below).

12. During May 1981, Daniel J. Manella borrowed \$200,000 from Rapid. The loan was unsecured and was evidenced by Mr. Manella's noninterest bearing promissory note due on January 31, 1983, which was paid. During February 1983, Mr. Manella borrowed \$200,000 from Rapid. The loan is unsecured and is evidenced by Mr. Manella's noninterest bearing promissory note due January 31, 1984. In addition, on October 15, 1982, Mr. Manella borrowed \$1,000,000 from Rapid. The loan is unsecured and is evidenced by Mr. Manella's noninterest bearing note due on October 14, 1983.

13. During December 1981, pursuant to the terms of a loan agreement, Arie Genger borrowed \$1,200,000 from McCrory. The loan is evidenced by Mr. Genger's promissory note due on May 15, 1994, and bearing interest at the rate of 7% per year payable semi-annually. Mr. Genger has the right at any time prior to January 1, 1985 to secure the note by pledging with McCrory an aggregate of \$1,200,000 principal amount of (i) publicly trading debt obligations of McCrory or Rapid having maturity dates on or before May 15, 1994, (ii) fixed dollar obligations of the United States of America having maturity dates on or before May 15, 1994, or (iii) traded debt obligations listed on the New York Stock Exchange having maturity dates on or before May 15, 1994 and which are rated at least "A" by Moody's Investors Service (the "Collateral"). If after the Collateral is pledged there is a default in the payment of interest or principal by Mr. Genger, Mr. Genger has the right to transfer the Collateral to McCrory and thereafter McCrory will have no recourse against him for the interest or principal on the note.

14. During October 1981, pursuant to the terms of a loan agreement, Bernard J. Blaney borrowed \$600,000 from McCrory. The loan is evidenced by Mr. Blaney's promissory note, due on August 1, 2006, and bearing interest at the rate of 10% per year payable semi-annually. Mr. Blaney has secured the note by pledging with McCrory \$600,000 principal amount of Rapid 10% Sinking Fund

Subordinated Debentures, due August 1, 2006 (the "Debentures"). If there is a default in the payment of interest or principal by Mr. Blaney, Mr. Blaney has the right to transfer the Debentures to McCrory and thereafter McCrory will have no recourse against him for the interest or principal on the note.

15. During the year ended January 31, 1983, Rapid and its subsidiaries paid to Messrs. Rubin Baum Levin Constant & Friedman, general counsel to Rapid, of which Abraham G. Levin is the senior partner, \$2,540,000 for services rendered.

16. McCrory leases certain properties from wholly-owned corporations of the McCrory Stores Pension Plan. Pursuant to such leases, during the year ended January 31, 1983, rentals of approximately \$577,000 were paid.

17. During the year ended January 31, 1983, Lerner paid to the Lerner's Employees Retirement Trust rentals of approximately \$13,000, covering two locations leased by Lerner. Lerner at its option may purchase, or at the option of said Trust may be required to purchase, these premises for a total of approximately \$220,000. Of this amount, approximately \$120,000 applies to a location previously sold to said Trust by Lerner at the same price.

18. During the year ended January 31, 1983, Otasco paid to the Otasco Employees Retirement Trust rentals of approximately \$335,000 covering locations leased by Otasco from such Trust.

In the opinion of management, the terms of the leases referred to in paragraphs 16, 17 and 18 are comparable to those prevailing generally for similar space in the areas in which such properties are located.

19. As an inducement for Mr. Riklis to enter into a new employment agreement (see "Employment Agreements" in Item 11 - "Management Remuneration"), Rapid loaned Mr. Riklis \$12,500,000 on February 1, 1983 (the "First Loan") and has agreed to loan Mr. Riklis \$12,500,000 on or before December 31, 1985 (the "Second Loan"). If certain financial criteria are not met, Rapid, in its sole discretion, may delay making the Second Loan until December 31, 1987. The Second Loan shall be made to Mr. Riklis, whether his employment by Rapid shall terminate by reason of death, resignation, discharge with or without cause, or otherwise. The First Loan was initially a contractual obligation due on February 1, 1986, bearing interest per year at the rate of 10%, payable annually. Mr. Riklis' obligation for the First Loan will be evidenced by the term promissory note described below. The Second Loan will bear interest per year at the rate of 10%, payable annually, and is payable on December 31, 1988 (or if made on December 31, 1987, it will be payable on December 31, 1990); provided, however, that prior to the respective due date of the Second Loan Mr. Riklis has the right to collateralize the Second Loan by pledging with Rapid its 10% Sinking Fund Subordinated Debentures, due August 1, 2006, in the principal amount of the Second Loan, and thereby extend the maturity date to August 1, 2006. In addition to the First Loan, during the fiscal year ended January 31, 1983, and thereafter, Mr. Riklis or his wholly-owned entities borrowed an aggregate of \$12,500,000 from Rapid, which was initially payable on demand and bearing interest at the rate per year of 110% of the prime rate of Chemical in effect from time to time, payable annually. The obligation for the \$12,500,000 will be evidenced by the demand promissory note described below.

In order to evidence the aggregate indebtedness to Rapid of \$25,000,000, two promissory notes, each in the principal amount of \$12,500,000, will be issued to Rapid. One promissory note will be payable on demand, bear interest at the rate per year of 110% of the prime rate of Chemical, as in effect from time to time, plus 7%, payable annually and will be assumed by World Wide and guaranteed by Mr. Riklis. The other promissory note will be payable on February 1, 1986 (which maturity date may be extended to August 1, 2006 by Mr. Riklis securing his obligations thereunder by delivering to Rapid \$12,500,000 principal amount of Rapid's 10% Sinking Fund Subordinated Debentures, due August 1, 2006), bear interest at the rate of 3% per year, payable annually and will be assumed by Mr. Riklis and guaranteed by World Wide. For the accounting treatment afforded the foregoing transactions reference is made to Note 11 to Financial Statements.

20. During the fiscal year ended January 31, 1983, Riklis Family Corporation (see Item 12 - "Security Ownership of Certain Beneficial Owners and Management" and "Introductory Note") borrowed from Rapid an aggregate of \$5,000,000. Such indebtedness is evidenced by promissory notes payable in 1987 in the aggregate amount of \$10,305,000, which amount includes accrued interest computed at the rate of 15% per year compounded semi-annually. Rapid has been advised that the \$5,000,000 proceeds of the loans were in turn advanced to Hotel Riviera (see paragraphs 11 above and 21 below). For the accounting treatment afforded the foregoing transaction reference is made to Note 11 to Financial Statements.

21. During September 1982, Rapid acquired from The Chase Manhattan Bank ("Chase") for \$1,240,000 the obligations of AITS (see paragraphs 11 and 20 above) to Chase in the principal amount of \$3,121,240, together with the accrued and unpaid interest thereon. In addition, during February 1983, Rapid acquired from The First National Bank of Chicago ("Chicago"), a lender to McCrory, for \$3,550,000 the obligations of AITS and Hotel Riviera to Chicago in the aggregate principal amount of \$8,750,000, together with the accrued and unpaid interest thereon (the AITS and Hotel Riviera indebtedness acquired by Rapid from Chase and Chicago are hereinafter collectively referred to as the "Indebtedness"). In connection with the acquisition of the Indebtedness Rapid also acquired the rights of Chase and Chicago under a pledge agreement (the "Pledge Agreement"), dated December 3, 1974, pursuant to which all of the capital stock of Hotel Riviera is pledged to secure the Indebtedness. Rapid and AITS have entered into an agreement regarding the discount attributable to Rapid's purchase of the Indebtedness at less than the face amount thereof. Rapid has assigned to AITS, for the benefit of its stockholders (excluding Messrs. Riklis, Becker and members of Mr. Becker's family), approximately 25% of any payments of the Indebtedness in excess of \$4,790,000 (the aggregate amount Rapid paid for the Indebtedness), plus imputed interest on the \$4,790,000 equal to 1/2% over the prime rate of Chicago in effect from time to time. Any payments of the Indebtedness will be first applied against the imputed interest and then against the remaining balance of \$4,790,000. In addition, during the fiscal year ended January 31, 1983 and thereafter, AITS borrowed an aggregate of \$110,000 from Rapid, due on demand. Rapid has been advised that AITS and the Hotel Riviera are experiencing severe financial difficulties. For the accounting treatment afforded the foregoing transactions reference is made to Note 11 to Financial Statements.

22. During February 1983, Schenley acquired from Chicago for \$2,175,000 the obligations of Mr. Becker to Chicago in the amount of \$2,175,000, together with the right to certain collateral securing such indebtedness which consists of obligations of AITS to Mr. Becker (see paragraphs 11 and 21 above).

23. As of January 31, 1983, Rapid purchased approximately 149 acres of undeveloped land (the "Property") in the Towns of Manchester and South Windsor, Connecticut from Mr. Riklis, for a purchase price of \$2,111,500 in excess of the existing mortgages on the Property of approximately \$500,000. Rapid delivered to Mr. Riklis its promissory note in the principal amount of \$2,111,500, payable on January 31, 1987, bearing interest at the rate of 6% per year payable quarterly, and secured by a purchase money mortgage on the Property. Rapid has the right to require Mr. Riklis to repurchase the Property on January 30, 1987, for a purchase price of \$2,111,500, plus all principal and interest payments on the underlying mortgages, and all real estate taxes paid by Rapid prior to such date. For the accounting treatment afforded the foregoing transaction reference is made to Note 11 to Financial Statements.

In connection with the foregoing transaction, Rapid has delivered a guarantee to Manufacturers Hanover Trust Company ("Manufacturers"), a lender to McCrory and Lerner, guaranteeing the difference between the interest due under a \$2,111,500 note from Mr. Riklis to Manufacturers (at 1/2% above prime rate) and 6% per annum. Any amounts advanced by Rapid under such guarantee would become demand obligations of Mr. Riklis', bearing interest at the rate per year of 110% of the prime rate of Manufacturers, payable annually.

24. A wholly-owned subsidiary of McCrory has agreed to sell its lease and leasehold estate located on Central Avenue, Yonkers, New York, which consists of a shopping center, to a New York Limited Partnership (the "New York Partnership"). The limited partners, consisting of Mona R. Ackerman, Marcia Riklis, Ira D. Riklis and AFC (or designees of the foregoing), will have a 90% interest in the profits and losses of the New York Partnership. The sales price for the property is \$6,100,000 which will be evidenced by a promissory note payable in quarterly instalments over a 15 year period, bearing interest at the rate of 10% per annum, and collateralized by an assignment of the income, profits, and distributions of the New York Partnership. For the accounting treatment afforded the foregoing transaction reference is made to Note 10 to Financial Statements.

Approximately 1,500 square feet in the Yonkers shopping center is leased to Ice Cream Ira's, Inc. (the principal stockholder of which is Ira D. Riklis) under a lease expiring in April 1992. During the year ended January 31, 1983, Ice Cream Ira's aggregate rental payment was \$21,000. Such rental constituted approximately 1% of the gross rental income of the shopping center for such year. In the opinion of management, the terms of this lease are comparable to those prevailing generally for similar space in the area.

25. A wholly-owned subsidiary of Rapid has agreed to sell its lease and leasehold estate located in Richmond, Virginia, which consists of a manufacturing plant and warehouse, to a Virginia Limited Partnership (the "Virginia Partnership"). The limited partners, consisting of Mona R. Ackerman, Marcia Riklis, Ira D. Riklis and AFC (or designees of the

foregoing), will have a 90% interest in the profits and losses of the Virginia Partnership. The sales price for the property is \$2,600,000, of which \$615,000 will be evidenced by a promissory note payable in quarterly instalments over an eight year period commencing in 1989, bearing interest at the rate per year of 10%, payable quarterly and collateralized by an assignment of the income, profits, and distributions of the Virginia Partnership, and the balance by the assumption of the payments due under a mortgage on the property, in the aggregate principal amount of \$1,985,000, which is due in annual instalments from December 1983 through December 1988. The mortgage bears interest at the rate per year of 6-1/4%, payable semi-annually. Upon consummation of the foregoing transaction, Rapid's subsidiary will continue to be liable under the mortgage. For the accounting treatment afforded the foregoing transaction reference is made to Note 10 to Financial Statements.

26. In connection with Lerner's acquisition of the New Jersey distribution center (see Item 1 - "Business - Retail Merchandising - Apparel Specialty Stores"), Lerner anticipates entering into a sale and leaseback transaction with, among others, Messrs. Divine, Levin, Manella and Blaney. The sales price of the property will be equal to the price Lerner paid for the property. The rental terms will be comparable to that which Lerner would pay for similar space in the general area.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

- (a) See Index to Financial Statements and Schedules on Page F-1.
- (b) No reports on Form 8-K were filed during the last quarter of the fiscal year ended January 31, 1983.
- (c) See Index to Exhibits on Page E-1.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID-AMERICAN CORPORATION
(Registrant)

By /S/ B. J. BLANEY
Bernard J. Blaney
Vice President and Treasurer

Dated: April 29, 1983

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

Principal Executive Officer:

Meshulam Riklis
Chairman of the Board

Principal Financial and Accounting Officer:

Bernard J. Blaney
Vice President and Treasurer

Directors:

Mona R. Ackerman
Harold S. Divine
Seymour Kleinman
Leonard C. Lane
Abraham G. Levin
Carl H. Lindner
Carl H. Lindner, III
S. Craig Lindner
Robert C. Lintz
Daniel J. Manella
Dan Palmon
Ira D. Riklis
Marcia Riklis
Meshulam Riklis
Leo D. Stone
Helen H. Updike

By /S/ STUART H. AARONS
Stuart H. Aarons
Attorney-in-fact

Dated: April 29, 1983

Original powers of attorney authorizing Bernard J. Blaney and Stuart H. Aarons, and each of them, to sign this report and any amendments hereto on behalf of certain directors and officers of the Registrant are being filed with the Securities and Exchange Commission with this report.

RAPID-AMERICAN CORPORATION

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Schedules

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Schedules Omitted

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required, or because the information required therein is set forth in the financial statements or the notes thereto.

One World Trade Center
New York, New York 10048
(212) 669-5000
International Telex 66272

To the Board of Directors of
Rapid-American Corporation:

We have examined the consolidated financial statements and supplemental schedules of Rapid-American Corporation and its consolidated subsidiaries, listed in the accompanying index. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries, which statements reflect revenues constituting 26%, 27% and 28%, respectively, of consolidated revenues for the years ended January 31, 1983, 1982 and 1981. Such financial statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such consolidated subsidiaries, is based solely upon the reports of the other auditors.

As discussed in Note 14 to the financial statements, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various actions and claims. The ultimate outcome of such actions and claims cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, and based upon our examinations and the reports of other auditors, the accompanying consolidated financial statements present fairly the financial position of the companies at January 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

April 15, 1983

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Touche Ross & Co.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

April 14, 1983

Board of Directors
Lerner Stores Corporation
New York, New York

We have examined the consolidated balance sheets of Lerner Stores Corporation and subsidiaries as of January 31, 1983 and 1982 and the related statements of income, stockholder's equity and changes in financial position for the years then ended (none of which is presented separately herein). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Lerner Stores Corporation and subsidiaries as of January 31, 1983 and 1982 and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

TOUCHE ROSS & CO.

Certified Public Accountants

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GATEWAY 1- NEWARK, NEW JERSEY 07102- (201) 622-7100

Ernst & Whinney

153 East 53rd Street
New York, New York 10022

212/888-9100

To the Board of Directors
Lerner Stores Corporation
New York, New York

We have examined the following consolidated financial statements of Lerner Stores Corporation and subsidiaries (none of which is presented separately herein):

Consolidated Statement of Income for the year ended
January 31, 1981

Consolidated Statement of Stockholder's Equity for
the year ended January 31, 1981

Consolidated Statement of Changes in Financial Position
for the year ended January 31, 1981

Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated results of operations of Lerner Stores Corporation and subsidiaries, and changes in their financial position for the year ended January 31, 1981 in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & WHINNEY

New York, New York
March 26, 1981

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Samson Bélair

Chartered accountants

REPORT OF CHARTERED ACCOUNTANTS

To Schenley Canada Inc.

We have examined the consolidated financial statements of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1981 and for the year ended January 31, 1981 and the schedules for the year ended January 31, 1981. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examination, the consolidated balance sheet and statements of consolidated income and retained earnings and of changes in consolidated financial position (all of which are not presented separately herein) present fairly the financial position of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1981 and the results of their operations and the changes in their financial position for the year ended January 31, 1981 in conformity with generally accepted accounting principles applied on a consistent basis; and the schedules for the year ended January 31, 1981 (which are included in the consolidated schedules listed in the accompanying index and are not presented separately herein), when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

SAMSON BELAIR

Chartered Accountants

Montreal, March 6, 1981

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Québec	Montréal	Ottawa	Toronto
Calgary	Edmonton	Vancouver	Rimouski
Trois-Rivières	Sherbrooke	Saint-Hyacinthe	Gatineau
Kitchener	Sept-Îles	Matane	Gaspé
Coaticook	Amos	Hinton	

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	January 31,	
	1983	1982
	(In Thousands)	
CURRENT ASSETS:		
Cash	\$ 41,895	\$ 19,472
Temporary investments, at cost which approximates market	178,462	140,735
Trade receivables, less allowances (\$4,010,000 and \$3,777,000)	117,600	125,880
Inventories	450,913	524,023
Other receivables, prepaid expenses, etc.....	60,231	48,131
Net assets held for sale to stockholders and affiliates	<u>13,500</u>	<u>-</u>
Total current assets	<u>862,601</u>	<u>858,241</u>
INVESTMENTS AND ADVANCES:		
Otasco Credit Corporation, at equity	20,872	20,468
Other investments, etc., substantially at equity	<u>23,979</u>	<u>19,810</u>
Total investments and advances	<u>44,851</u>	<u>40,278</u>
PROPERTY, PLANT AND EQUIPMENT - AT COST	531,872	518,524
Less accumulated depreciation and amortization	<u>223,460</u>	<u>227,068</u>
Capital leases, less accumulated amortization	308,412	291,456
Property, plant and equipment - net	<u>35,972</u>	<u>46,808</u>
Property, plant and equipment - net	<u>344,384</u>	<u>338,264</u>
OTHER ASSETS:		
Excess of cost of investments over related equities, less accumulated amortization (\$39,833,000 and \$35,655,000)	238,543	246,689
Franchises, less accumulated amortization (\$4,112,000 and \$3,713,000)	45,888	46,287
Trademarks	2,809	2,930
Deferred charges, mortgages and sundry	52,625	31,458
Due from stockholders and affiliates (\$38,877,000 and \$5,863,000) - see contra .	<u>-</u>	<u>-</u>
Total other assets	<u>339,865</u>	<u>327,364</u>
TOTAL	<u>\$1,591,701</u>	<u>\$1,564,147</u>

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY	January 31,	
	1983	1982
(In Thousands)		
CURRENT LIABILITIES:		
Accrued expenses and sundry	\$ 156,559	\$ 160,197
Accounts payable	149,857	160,527
Current maturities of long-term debt	86,057	31,335
Short-term debt	63,605	5,850
Accrued Federal and foreign income taxes	42,231	35,479
Due to stockholders and affiliates	21,927	-
Capital lease obligations	<u>6,067</u>	<u>7,364</u>
 Total current liabilities	<u>526,303</u>	<u>400,752</u>
 LONG-TERM DEBT, LESS CURRENT MATURITIES AND UNAMORTIZED DISCOUNT	<u>779,417</u>	<u>881,004</u>
 OTHER NONCURRENT LIABILITIES:		
Deferred income taxes	110,702	88,498
Capital lease obligations	51,554	65,343
Reserves for store closings	8,118	9,999
Other	<u>40,010</u>	<u>36,417</u>
 Total other noncurrent liabilities	<u>210,384</u>	<u>200,257</u>
 MINORITY INTEREST IN SUBSIDIARIES	<u>15,248</u>	<u>15,172</u>
 STOCKHOLDERS' EQUITY:		
Capital stock:		
Preferred stock	-	1
Common stock, \$.01 par value, authorized and outstanding 2,435,607 shares	24	24
Additional paid-in capital	57,906	69,903
Retained earnings	41,296	2,897
Due from stockholders and affiliates - see contra	<u>(38,877)</u>	<u>(5,863)</u>
 Stockholders' equity	<u>60,349</u>	<u>66,962</u>
 TOTAL	<u>\$1,591,701</u>	<u>\$1,564,147</u>

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Year Ended January 31,		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Thousands)		
REVENUES:			
Net sales	\$2,570,679	\$2,645,914	\$2,588,674
Other - net	<u>44,736</u>	<u>29,758</u>	<u>14,556</u>
	<u>2,615,415</u>	<u>2,675,672</u>	<u>2,603,230</u>
COSTS AND EXPENSES:			
Cost of goods sold	1,808,710	1,872,308	1,863,508
Selling, general and administrative expenses	553,751	568,562	539,296
Interest and debt expense	155,659	161,258	117,607
Depreciation and amortization	35,752	33,901	32,377
Nonrecurring item - principally foreign exchange loss on sale of Canadian alcoholic beverage operations	-	<u>6,337</u>	-
	<u>2,553,872</u>	<u>2,642,366</u>	<u>2,552,788</u>
INCOME BEFORE PROVISION FOR INCOME TAXES AND EXTRAORDINARY CREDIT	61,543	33,306	50,442
PROVISION FOR INCOME TAXES			
(Including, in 1982, a nonrecurring provision of \$9,748,000 related to sale of Canadian alcoholic beverage operations)	<u>28,878</u>	<u>26,351</u>	<u>22,876</u>
INCOME BEFORE EXTRAORDINARY CREDIT ..	32,665	6,955	27,566
EXTRAORDINARY CREDIT - GAIN ON DEBENTURE EXCHANGES - NET OF TAX ..	<u>13,834</u>	<u>-</u>	<u>-</u>
NET INCOME	46,499	6,955	27,566
CONSOLIDATED PREFERRED DIVIDEND REQUIREMENTS	<u>926</u>	<u>1,999</u>	<u>9,307</u>
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	<u>\$ 45,573</u>	<u>\$ 4,956</u>	<u>\$ 18,259</u>

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES
STATEMENTS OF STOCKHOLDERS' EQUITY

	<u>Convertible Preferred Stocks</u>	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital (In Thousands)</u>	<u>Retained Earnings</u>	<u>Due from Stockholders and Affiliates</u>
Balance, February 1, 1980	\$ 3,690			\$ 5,098	\$132,840	\$ 48,643
Net income						27,566
Cash dividends declared on:						
\$3.00 redeemable preference stock						(8,015)
Convertible preferred stocks..						(253)
Common stock (\$.60 per share).						(3,090)
Conversion of preferred stocks .	(354)			132	222	
Redemption of preferred stocks .	(3,133)				(249)	(2,875)
Rapid-Kenton merger and warrant exchange offer	(203)	\$ 1		(5,206)	(61,311)	(57,792)
Cash dividends paid by subsidiaries						(591)
Other						(177)
Balance, January 31, 1981	<u>—</u>	<u>—</u>	<u>—</u>	<u>24</u>	<u>71,502</u>	<u>3,416</u>
Net income						6,955
Cash dividends declared on:						
Preferred stock (\$10.00 per share)						(1,179)
Common stock (\$1.00 per share)						(2,436)
Rapid-Kenton merger and warrant exchange offer adjustments ...					(1,490)	(2,125)
Cancellation of debenture purchase warrants					(100)	
Cash dividends paid by subsidiaries						(1,734)
Due from stockholders and affiliates, principally from sale of ILC Industries, Inc. .						<u>\$ (5,862)</u>
Balance, January 31, 1982		1	24	69,903	2,897	(5,863)
Net income						46,490
Cash dividends declared on:						
Preferred stock (\$.92 per share)						(108)
Common stock (\$.16 per share)						(3,897)
Redemption of preferred stock ..		(1)			(11,786)	
Reduction of carrying value of net assets held for sale to stockholders and affiliates						(3,284)
Exercise of debenture purchase warrants					(211)	
Cash dividends paid by subsidiaries						(811)
Increase in amount due from stockholders and affiliates ..						<u>(33,014)</u>
Balance, January 31, 1983	<u>—</u>	<u>\$ 24</u>	<u>\$ 57,906</u>	<u>\$ 41,296</u>	<u>\$ (38,877)</u>	

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31,		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
FUNDS PROVIDED:		(In Thousands)	
Operations:			
Income before extraordinary credit .	\$ 32,665	\$ 6,955	\$ 27,566
Nonrecurring item, principally foreign exchange loss on sale of Canadian alcoholic beverage operations		6,337	
Items not currently requiring funds:			
Depreciation and amortization (including debt discount and intangibles)	48,679	45,886	39,623
Deferred Federal and foreign income taxes	7,456	15,469	8,126
Other - net	<u>6,119</u>	<u>7,053</u>	<u>1,399</u>
Funds provided by operations ...	94,919	81,700	76,714
Extraordinary credit:			
Gain on debenture exchanges	13,834		
Deferred income taxes	11,784		
Decrease in long-term debt	(25,618)		
Increase in other long-term debt	16,849	109,637	154,703
Disposals of property, plant and equipment	17,072	12,098	11,049
Working capital of companies to be sold (1983) or acquired (1982)	<u>6,308</u>	<u>2,056</u>	<u>242,466</u>
FUNDS APPLIED:			
Decrease in other long-term debt	99,153	90,978	91,667
Additions to property, plant and equipment	64,892	82,893	56,957
Decrease in capital lease obligations.	13,736	10,386	10,026
Due from stockholders and affiliates .	33,014	5,863	
Increase in deferred charges, mortgages and sundries	24,429	706	847
Redemption of preferred stock	11,787		
Acquisition of common, preference and preferred stocks and warrants ..		3,624	163,166
Cash dividends	4,005	3,615	11,358
Decrease in noncurrent reserves for store closings	4,617	3,909	6,435
Advances to Otasco Credit Corporation.		3,000	1,000
Loans to certain directors and officers - net	3,291	4,090	
Acquisition of subsidiary		6,496	
Cash dividends paid by subsidiaries ..	811	1,734	591
Acquisition of Kenton - net			24,661
Other - net	<u>(3,396)</u>	<u>(1,453)</u>	<u>932</u>
	<u>256,339</u>	<u>215,841</u>	<u>367,640</u>
DECREASE IN WORKING CAPITAL	<u>\$(121,191)</u>	<u>\$(10,350)</u>	<u>\$(125,174)</u>

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION-(Concluded)

	<u>Year Ended January 31,</u>		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Thousands)		

INCREASE (DECREASE) IN WORKING

CAPITAL BY COMPONENTS:

Cash	\$ 22,423	\$ (10,035)	\$ 5,020
Temporary investments	37,727	83,503	22,902
Trade receivables, less allowances.	(8,280)	(52,393)	(32,085)
Inventories	(73,110)	(53,155)	(42,310)
Other receivables, prepaid expenses, etc.	12,100	6,857	365
Net assets held for sale to stockholders and affiliates	13,500	-	-
Accrued expenses and sundry	3,638	22,258	(32,348)
Accounts payable	10,670	2,109	(40,926)
Current maturities of long-term debt	(54,722)	(11,139)	(12,045)
Short-term debt	(57,755)	(4,000)	(1,850)
Accrued Federal and foreign income taxes	(6,752)	4,789	6,793
Due to stockholders and affiliates.	(21,927)	-	-
Capital lease obligations	1,297	856	1,310
 DECREASE IN WORKING CAPITAL	<u><u>\$ (121,191)</u></u>	<u><u>\$ (10,350)</u></u>	<u><u>\$ (125,174)</u></u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include (i) Rapid and its divisions, Territory Financial, International Health and Rapid Typographers (incorporated July 1, 1982); (ii) McCrory Corporation and its divisions and subsidiaries, including Lerner Stores Corporation and subsidiaries, Otasco, Inc. and subsidiaries, J. J. Newberry Co. and subsidiaries and all other subsidiaries, exclusive of Otasco Credit Corporation, a nonsignificant financing subsidiary (see Note 3), which is carried at equity; (iii) Schenley Industries, Inc. and its subsidiaries; (iv) McGregor-Doniger Inc. and its divisions; (v) Melville Knitwear Co., Inc. and its divisions and subsidiaries; (vi) American Recreation Group, Inc. (from November 1, 1981, date of acquisition); (vii) Plastic Toy and Novelty (division of American Recreation Group, Inc.); (viii) Shenandoah Corporation; and (ix) certain other subsidiaries whose assets and operations in the aggregate are not significant.

Minority interest in subsidiaries consisted of preferred and preference stocks of subsidiaries not held by Rapid and its subsidiaries.

To facilitate comparisons with the current year, certain amounts in prior years have been reclassified.

INVENTORIES

The last-in, first-out ("LIFO") method is used to value substantially all inventories. The LIFO inventory amount at January 31, 1983, 1982 and 1981 was less than the first-in, first-out inventory amount by approximately \$106,900,000, \$104,900,000 and \$82,800,000, respectively.

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately \$169,600,000, \$188,800,000 and \$237,100,000, respectively, for the years ended January 31, 1983, 1982 and 1981.

PROPERTY, PLANT AND EQUIPMENT

It is the policy of Rapid and its subsidiaries to provide for depreciation of depreciable properties at rates designed to extinguish the cost thereof over the estimated service lives of the properties. The approximate annual rates of depreciation and amortization, which have been computed generally using the straight-line method, are as follows:

	<u>Rates of Depreciation and Amortization</u>
Buildings, etc.	2 to 20%.
Furniture, fixtures and automobiles	2-1/2 to 33-1/3%.
Machinery and equipment	4 to 50%.
Property and equipment under capital leases	Term of lease.
Leasehold improvements	Term of lease or estimated service life of improvement, whichever is less.

Expenditures for maintenance and repairs are charged to income or costs of production as incurred. Expenditures for renewals which extend the estimated service lives of the properties, and the cost of betterments of such properties, are charged to the appropriate fixed asset accounts.

At the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

EXCESS OF COST OF INVESTMENTS OVER RELATED EQUITIES AND FRANCHISES

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to \$112,730,000 at January 31, 1983 and 1982, has been recognized as being similar in nature to intangibles, which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Note 5). Franchises, which consist of Schenley contracts to import whiskies, liquors, and other distilled spirits, have continuing value and are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to \$125,813,000 (after accumulated amortization of \$39,833,000) at January 31, 1983 and \$133,959,000 (after accumulated amortization of \$35,655,000) at January 31, 1982 and the portion of franchises, amounting to \$11,833,000 (after accumulated

amortization of \$4,112,000) at January 31, 1983 and \$12,232,000 (after accumulated amortization of \$3,713,000) at January 31, 1982, acquired subsequent to October 31, 1970 are being amortized using the straight-line method over forty years (see Note 5). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

2. RAPID-KENTON MERGER

On January 31, 1981, Rapid-American Corporation ("Old Rapid") merged into Kenton Corporation ("Kenton"), which as the surviving corporation changed its name to Rapid-American Corporation ("Rapid"). Upon consummation of the merger, holders of Old Rapid common stock and \$3.00 redeemable preference stock, other than Kenton and American Financial Corporation and certain of its subsidiaries ("AFC"), received, for each share, \$45 principal amount of Rapid 10% subordinated sinking fund debentures due August 1, 2006 ("10% Debentures") together with \$.75 in cash, and an additional \$2.25 in cash, which represented accrued interest on the 10% Debentures for the period between August 1, 1980 and January 31, 1981. An additional \$.25 per share was distributed in August 1981 upon court approval of the settlement of certain litigation.

As a condition precedent to the merger, Old Rapid called for redemption its outstanding shares of \$3.00 and \$3.15 convertible preferred stocks, 53,342 shares and 3,626 shares, respectively, at a redemption price of \$105 plus accrued dividends to March 2, 1981, the date of redemption. Such preferred stockholders had the right, in lieu of accepting the redemption amount, to receive the same consideration as they would have received had they converted their shares into common stock prior to the merger.

Kenton stockholders, other than Meshulam Riklis ("Riklis"), Chairman of the Board, President and Chief Executive Officer of Rapid, two Trusts created by him for the benefit of members of his family, AFC, and the officers and directors of Kenton and certain related parties ("Kenton Management"), received for each share of common stock of Kenton and for each share of 6% cumulative preferred stock of Kenton, \$22.50 in cash. An additional \$.22 per share was distributed in August 1981 upon court approval of the settlement of certain litigation. Kenton management received 10% subordinated notes of Rapid in the principal amount of \$22.50 for each share of Kenton common stock (such notes were prepaid in March 1982).

In exchange for their respective interests, Riklis and the Riklis family interests received 11,250 shares of new preferred stock and 1,461,364 shares of new common stock and AFC received 106,625 shares of new preferred stock and 974,243 shares of new common stock. The new preferred stock was redeemed in March 1982.

The merger was accounted for as a purchase by Rapid of Kenton's assets and assumption of its liabilities. The 10% Debentures were issued after provision for original issue discount of 50% of principal amount. Had Kenton been acquired on February 1, 1980, the unaudited pro forma net sales and net income for the year ended January 31, 1981 would have been \$2,639,000,000 and \$5,697,000, respectively. Unaudited pro forma ratio of earnings to fixed charges and preferred dividends combined for the year ended January 31, 1981 would have been 1.06.

Prior to the merger, each Old Rapid warrant entitled its holder to purchase one share of Old Rapid common stock at an exercise price of \$35 per share. As a result of the merger, the warrants are now exercisable for \$45 principal amount of 10% Debentures, together with \$3.25 in cash at the same exercise price (\$35). The warrants are redeemable, at Rapid's option, at \$20 per warrant and expire May 15, 1994. In addition, the indentures relating to Rapid's 7-1/2% sinking fund subordinated debentures, due 1985, 12% sinking fund subordinated debentures, due 1999 and 15% sinking fund subordinated debentures, due 2008, provide that these debentures may be applied at their face amount upon exercise of the warrants.

On February 2, 1981, Rapid offered to exchange \$10 principal amount of 10% Debentures, together with \$.67 in cash for each warrant. This offer expired on April 20, 1981, and approximately 4,480,000 warrants were tendered in exchange for approximately \$44,800,000 principal amount of 10% Debentures and \$3,000,000 in cash.

3. INVESTMENTS AND ADVANCES

Otasco Credit Corporation - Otasco, Inc. has a financing agreement with Otasco Credit Corporation under which Otasco, Inc. sells substantially all of its customers' accounts receivable to Otasco Credit Corporation. Otasco, Inc. receives 90% of the amount of accounts receivable sold and repurchases accounts receivable in default, as defined. Otasco, Inc.'s 10% equity in accounts receivable sold is included in trade receivables in the consolidated balance sheets.

The condensed balance sheets of Otasco Credit Corporation at January 31, 1983 and 1982 were as follows:

	<u>January 31,</u>	
	<u>1983</u>	<u>1982</u>
	(In Thousands)	
Assets:		
Customers' accounts receivable purchased from Otasco, Inc. net of 10% withheld pending collection (\$8,646,000 and \$8,192,000)	\$77,814	\$73,724
Cash	<u>6,209</u>	<u>5,759</u>
 Total assets	<u>84,023</u>	<u>79,483</u>
 Liabilities:		
Notes payable to banks	62,000	57,500
Accrued interest and sundry	797	1,066
Payable to Otasco, Inc.	354	449
Total liabilities	<u>63,151</u>	<u>59,015</u>
Rapid's carrying value (including subordinated note payable to McCrory of \$18,000,000)	<u>\$20,872</u>	<u>\$20,468</u>

Net income of Otasco Credit Corporation was \$404,000, \$504,000 and \$382,000, respectively, for the years ended January 31, 1983, 1982 and 1981 and has been included in consolidated net income.

Otasco Credit Corporation has an agreement with a regional bank group for a revolving credit line in the aggregate principal amount of \$75,000,000, expiring on July 31, 1984 and secured by all of the customers' accounts receivable purchased by Otasco Credit Corporation together with substantially all of Otasco, Inc.'s customers' accounts receivable. The agreement provides, among other things, for an interest rate of 1/2 of 1% above the prime rate and maintenance of compensating balances equal to 10% of the borrowings. At January 31, 1983, 1982 and 1981 the prime interest rates were 11.0%, 16.25%, and 20.5%, respectively. The average amount of notes payable to banks outstanding during the years ended January 31, 1983, 1982 and 1981 was approximately \$58,400,000, \$57,800,000 and \$53,300,000, respectively, and the weighted average interest rates were approximately 15.0%, 19.1% and 15.9%, respectively.

ILC Industries, Inc. - At January 31, 1982, Rapid owned 555,054 shares (74%) of ILC common stock. Rapid's investment in ILC, including loans and advances and equity in undistributed earnings, was approximately \$11,800,000 at January 31, 1982. ILC reported net income of \$1,969,000 and \$1,984,000 for its years ended December 31, 1981 and 1980, respectively.

On February 3, 1982, reflected in the financial statements as of January 31, 1982, Rapid sold its common stock investment in ILC to Meshulam Riklis and Carl H. Lindner in exchange for \$5,550,540 in notes bearing interest at 10% per annum and payable January 31, 1997. The principal amount of the notes has been included as due from stockholders and affiliates (see Item 13 - "Certain Relationships and Related Transactions", paragraph 9, which is an integral part of these financial statements). Subsequently, in connection with a merger of ILC with another entity, Rapid exchanged indebtedness due from ILC in the amount of approximately \$7,450,000 for approximately 74,500 shares of ILC preferred stock (included in Investments and Advances - other investments, etc.), having a liquidation and redemption value of \$100 per share, which provides for quarterly noncumulative dividends at the annual rate of \$6.00 per share; restricts dividends on all common stock to an amount equal to the amount paid on the preferred stock, requires redemption of the preferred stock in an amount equal to 30% of the earnings before Federal income taxes of the company (as defined) in excess of \$3,500,000; and redemption of all preferred stock under certain other conditions. During the year ended January 31, 1983, no shares of ILC preferred stock were redeemed and no dividends were paid.

Separate financial statements have not been presented for any nonconsolidated subsidiary since, considered in the aggregate as a single subsidiary, they do not constitute a "significant subsidiary".

4. INVENTORIES

Inventories at the lower of cost or market consisted of the following:

	January 31,	
	<u>1983</u>	<u>1982</u>
At LIFO cost - whiskey, other spirits and wine:		(In Thousands)
In bond	\$142,874	\$176,820
Tax paid	7,367	10,062
At cost - whiskey, other spirits and wine in bond.	11,583	14,435
Principally LIFO:		
Merchandise at stores and warehouses	247,582	243,800
Raw materials and supplies	3,764	15,918
Principally first-in, first-out and average cost:		
Merchandise at plants and warehouses	20,068	39,306
Work in process	7,120	8,433
Raw materials and supplies	<u>10,555</u>	<u>15,249</u>
Total	<u>\$450,913</u>	<u>\$524,023</u>

5. INTANGIBLES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31,	
	<u>1983</u>	<u>1982</u>
		(In Thousands)
Schenley, etc	\$174,614	\$174,614
Lerner	65,526	65,526
McCrory	19,375	19,375
McGregor	17,862	17,862
Other	<u>999</u>	<u>4,967</u>
Total*	278,376	282,344
Less accumulated amortization	<u>39,833</u>	<u>35,655</u>
Net	<u>\$238,543</u>	<u>\$246,689</u>

* Includes \$165,646,000 and \$169,614,000 at January 31, 1983 and 1982, respectively, which is being amortized over forty years (see Note 1).

Rapid's equity in the net income of Schenley was \$35,557,000, \$9,649,000 (after nonrecurring loss of \$16,085,000) and \$18,060,000, respectively, for the years ended January 31, 1983, 1982 and 1981. The net assets of Schenley at January 31, 1983 and 1982 were \$377,533,000 and \$354,575,000, respectively. Rapid carries its investments in subsidiaries, including Schenley, at equity, plus, when applicable, the excess of the aggregate cost over the equity in underlying net assets acquired at dates of acquisition, including the portion allocated to franchises.

6. INDEBTEDNESS AND WARRANTS

Short-Term

Short-term borrowings for the three years ended January 31, 1983 were as follows:

	Year-End		During the Year		
	Amount Outstanding	Interest Rate	Maximum Amount Outstanding	Amount Outstanding	Average (*) Interest Rate
			(In Thousands, Except Percentages)		
<u>January 31, 1983:</u>					
Credit lines and commercial paper..	\$44,250	10.7%	\$132,400	\$ 89,100	14.1%
Trade acceptances ..	<u>19,355</u>	10.1	<u>30,500</u>	<u>20,100</u>	13.8
Total	<u>\$63,605</u>		<u>\$162,900</u>	<u>\$109,200</u>	
<u>January 31, 1982:</u>					
Credit lines and commercial paper..	\$ 5,850	17.6	\$ 92,600	\$ 49,800	19.3
Trade acceptances ..	<u>-</u>		<u>30,400</u>	<u>11,700</u>	18.1
Total	<u>\$ 5,850</u>		<u>\$123,000</u>	<u>\$ 61,500</u>	
<u>January 31, 1981:</u>					
Credit lines	\$ 1,850	23.4	\$ 50,000	\$ 27,100	14.1
Trade acceptances ..	<u>-</u>		<u>20,200</u>	<u>7,200</u>	11.4
Total	<u>\$ 1,850</u>		<u>\$ 70,200</u>	<u>\$ 34,300</u>	

(*) Average borrowings were calculated using the average month-end borrowings outstanding and the average interest rates were calculated by dividing the interest expense for such borrowings by the average month-end borrowings outstanding.

Unused McCrory lines of credit available for short-term bank borrowings and the issuance of commercial paper aggregated \$60,000,000 at January 31, 1983 (see "McCrory Agreement" below). McCrory, under its compensating balance arrangement, is generally expected to maintain cash balances of 5% of the line of credit and 5% of the loans outstanding. Such requirements were satisfied by maintenance of the required balances and the payment of fees.

The average cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries were approximately \$28,000,000, \$19,000,000 and \$23,000,000, respectively, during the years ended January 31, 1983, 1982 and 1981. The aforementioned balances were subject to withdrawal at any time.

Long-Term

Details of consolidated long-term debt, including current maturities, at January 31, 1983 and 1982 were as follows:

<u>Description</u>	<u>Amount Outstanding</u>		<u>Effective Interest Rate (%)</u>	
	<u>1983</u>	<u>1982</u>	<u>January 31,</u>	<u>1983</u>
	<u>(In Thousands)</u>			
Notes payable to banks:				
McCrory	\$ 55,000	\$ 65,000	11.5	16.5
McGregor	3,250	4,250	11.0	5.0
Rapid	-	3,000	-	18.3
Notes due to insurance companies:				
Schenley 10% notes due to 1986	96,600	101,200	10.0	10.0
Subordinated indebtedness:				
7-1/2% SF debentures due to 1985 ..	18,893	40,840	9.4	9.4
10-1/2% SF debentures due to 1985* ..	5,873	6,422	11.3	11.3
6% SF debentures due 1988	102,114	102,114	8.0	8.0
6-1/2% convertible debentures				
due 1992*	3,379	3,379	6.9	6.9
7% debentures due 1994 (1969 issue)	51,766	51,766	9.3	9.3
7% debentures due 1994 (1972 issue)	66,277	66,277	9.9	9.9
7-1/2% SF debentures due to 1994* ..	22,750	55,481	9.5	9.5
6-1/2% convertible debentures				
due 1994*	967	1,007	6.5	6.5
7-3/4% SF debentures due to 1995* ..	15,351	62,444	12.1	12.1
7-5/8% SF debentures due to 1997* ..	12,204	55,650	9.8	9.8
12% SF debentures due to 1999	16,684	17,926	12.9	12.9
10-3/4% SF debentures due to 2003 ..	153,141	153,141	13.7	13.7
10-3/4% SF debentures due to 2004 ..	5,870	5,870	13.7	13.7
11% SF debentures due to 2005	15,510	15,510	14.0	14.0
10% SF debentures due to 2006	293,026	291,428	20.7	20.7
15% SF debentures due to 2008	13,392	-	16.8	-
9-1/2% SF debentures due to 2008* ..	32,731	-	15.1	-
9-5/8% SF debentures due to 2008* ..	43,491	-	15.5	-
9-3/4% SF debentures due to 2008* ..	47,093	-	15.7	-
6-1/2% SF debentures *	-	3,905	-	8.7
10% notes	-	2,648	-	15.0
Notes and mortgages payable:				
Rapid	13,698	17,303	2-12.0	2-11.0
View Top Corporation	17,620	14,665	12.5-13	16.8-17.3
McCrory and subsidiaries	21,909	12,905	2-12.1	2-16.3
Schenley	4,480	5,680	14-20.0	14-20.0
Shenandoah Corporation	2,254	3,007	7-8.0	7-8.0
Other subsidiaries	38	192	11.2	19.5
Total principal amount	1,135,361	1,163,010		
Less: Current maturities	(86,057)	(31,335)		
Unamortized discount	<u>(269,887)</u>	<u>(250,671)</u>		
Total	<u>\$ 779,417</u>	<u>\$ 881,004</u>		

* Subordinated indebtedness of McCrory or one of its subsidiaries.

The 6-1/2% convertible debentures due 1992 of McCrory are convertible at the rate of \$70 principal amount into \$45 principal amount of 10% Debentures plus \$3.25 in cash. The 6-1/2% convertible debentures due 1994 of J. J. Newberry are convertible at a rate of \$150 principal amount for each share of J. J. Newberry common stock.

In connection with the purchase of a distribution facility in New Jersey during 1982, Lerner issued a mortgage note in the amount of \$6,750,000 secured by the facility which has a net book value of \$8,750,000. The note was noninterest bearing through April 1, 1983 at which time it was refinanced with a bank. Lerner intends to sell and lease back this land and building to a partnership, whose partners will be principally affiliated with Rapid or its subsidiaries (see Item 13 - "Certain Relationships and Related Transactions", paragraph 26, which is an integral part of these financial statements). The refinancing is evidenced by a demand note bearing interest at the rate of 110% of the prime rate which can be converted to a term loan. Accordingly, this mortgage note has been classified as a noncurrent liability.

Aggregate principal amount of long-term debt at January 31, 1983 matures as follows:

<u>Year Ending January 31,</u>	<u>(In Thousands)</u>	<u>Five Years Ending January 31,</u>	<u>(In Thousands)</u>
1984	\$ 86,057	1988	\$ 229,760
1985	74,918	1993	167,624
1986	42,575	1998	272,508
1987	17,947	2003	163,393
1988	<u>8,263</u>	2008	254,229
		2013	<u>47,847</u>
TOTAL ...	<u>\$229,760</u>	TOTAL ...	<u>\$1,135,361</u>

At January 31, 1983, notes and mortgages payable aggregating approximately \$58,300,000 were secured by land, buildings and equipment having an approximate carrying value of \$77,100,000.

McCrory Agreement

On June 19, 1981, McCrory entered into a credit agreement (the "McCrory Credit Agreement") with 10 banks providing for a revolving credit of \$100,000,000 until July 31, 1984 (50% of which may be utilized as a back-up line for the issuance of commercial paper) and at January 31, 1983 a reducing revolving credit of \$55,000,000, payable \$10,000,000 on December 31, 1983 and \$45,000,000 on July 31, 1984.

Interest on the revolving credit line is payable at a rate equal to the greater of the prime rate or 1/2 of 1% above the commercial paper rate (as defined), and on the reducing revolving credit at a rate equal to the greater of 1/2 of 1% over the prime rate or 1% above the commercial paper rate. The McCrory Credit Agreement requires McCrory to pay annual balance deficiency fees to the extent that 5% of the average unpaid principal amount of the notes

and 5% of the commitments exceed McCrory's average collected demand deposit balances with the lending banks. The balance deficiency fee for the revolving credit line is calculated on the basis of the prime rate and for the reducing revolving credit is calculated on the basis of 1/2 of 1% over the prime rate.

The McCrory Credit Agreement requires McCrory to maintain minimum levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated net current assets, and (iii) ratios of consolidated current assets to current liabilities (as each term is defined). In addition, Lerner is required to maintain a minimum level of consolidated tangible net worth. The McCrory Credit Agreement and other agreements covering certain indebtedness contain other material restrictions on McCrory and its subsidiaries, including restrictions on indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments and the right to engage in business combinations. Subject to certain limitations, McCrory may pay cash dividends on its common stock in an amount not exceeding 50% of its consolidated net income (as defined), and may also pay cash dividends on its preference stocks in accordance with the stated dividend rates. Rapid guarantees McCrory's obligations under the McCrory Credit Agreement, which guarantee is collateralized by Rapid's pledge of the outstanding capital stock of its principal operating subsidiaries, and McCrory pledged the capital stock of Lerner to secure its obligations.

During August 1982, McCrory obtained a line of credit from four of the above banks in the aggregate principal amount of \$50,000,000, which expired December 23, 1982. The maximum amount outstanding was \$20,500,000.

Otasco Agreement

During June 1982, Otasco obtained a line of credit, from the same regional bank group which provides financing to Otasco Credit, in the aggregate principal amount of \$15,000,000, expiring on July 31, 1983 (see Note 3). Rapid has guaranteed Otasco's obligations under the line of credit. On January 31, 1983 there were no borrowings outstanding under this line and the maximum amount outstanding during the period ended January 31, 1983 was \$8,000,000. The aggregate borrowings under this agreement and the Otasco Credit agreement are not permitted to exceed \$75,000,000.

Schenley Agreement

On December 18, 1978, Schenley entered into a loan agreement with a group of insurance companies ("Schenley Loan Agreement"), pursuant to which Schenley borrowed \$115,000,000 evidenced by 10% promissory notes (\$96,600,000 and \$101,200,000 outstanding at January 31, 1983 and 1982, respectively).

During February 1983, certain provisions in the Schenley Loan Agreement were modified and Schenley reduced the outstanding obligations by making a prepayment of \$56,600,000. The modified Schenley Loan Agreement provides for, among other things, required annual payments of \$10,000,000 in each December of the years 1983 to 1986. Prepayments are permitted without penalty each year up to the amount of the mandatory payment for that year provided that the aggregate principal amounts so prepaid may not exceed \$20,000,000. Additional prepayments may be made, in certain circumstances, with declining penalties over the term of the loan (6.67% at January 31, 1983).

The modified Schenley Loan Agreement also contains certain amended limitations relating to Schenley's financial position, its indebtedness, dividends and liens, and investments in companies which are not wholly-owned subsidiaries. Commitments to make lease payments and transactions with affiliates, including Rapid, are restricted. Schenley may pay dividends on its common stock in an amount up to 70% of its net income (as defined) after February 1, 1983 and is permitted to make significant advances (as defined) to Rapid and its subsidiaries.

McGregor Term Loan Agreement

The McGregor term loan agreement (\$3,250,000 and \$4,250,000 outstanding at January 31, 1983 and 1982, respectively) provides for quarterly payments of \$250,000, with interest at 5% per annum through May 15, 1982 and thereafter at the prime rate (11% at January 31, 1983). Rapid guarantees the obligations of McGregor under this agreement.

Restricted Net Assets

As described above, certain subsidiaries are restricted by various agreements which limit, among other matters, cash dividends and advances to Rapid. At January 31, 1983, the net assets of Rapid's subsidiaries were approximately \$618,000,000 (includes net intercompany accounts of approximately \$182,000,000), of which the restricted net assets were approximately \$245,000,000.

Warrants

At January 31, 1983, there were approximately 788,000 warrants outstanding. Each warrant is exercisable for \$45 principal amount of 10% Debentures and \$3.25 in cash at an exercise price of \$35. The warrants are redeemable, at Rapid's option, at \$20 per warrant and expire May 15, 1994. In addition, the indentures relating to Rapid's 7-1/2% sinking fund subordinated debentures, due 1985, 12% sinking fund subordinated debentures, due 1999 and 15% sinking fund subordinated debentures, due 2008, provide that these debentures may be applied at their principal amount to the warrant exercise price. During the year ended January 31, 1983, 35,497 warrants were exercised and \$1,597,365 principal amount of 10% debentures were issued together with \$115,365 in cash.

7. COMMON STOCK

At January 31, 1983 and 1982, Riklis Family Corporation and AFC owned all of the outstanding common stock of Rapid (see Note 2 and Item 12 - "Security Ownership of Certain Beneficial Owners and Management").

8. RESERVES FOR CLOSED FACILITIES

S. Klein Phase-Out Reserve

In 1975 management of McCrory decided to phase-out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. Through January 31, 1983, McCrory provided an aggregate of \$85,165,000 (before Federal income taxes of \$39,840,000) as a reserve for estimated losses to be incurred in connection with the phase-out. The balance of the reserve at January 31, 1983 consisted of \$2,517,000 (current) and \$4,971,000 (long-term).

The program of phasing out the S. Klein stores resulted in all 19 stores being closed by the end of August 1975. McCrory's obligation under leases for nine of these stores have been terminated, eight leases have been assigned or subleased to others and two stores are vacant. During September 1981, Rapid purchased the 14th Street S. Klein store location from unrelated third parties and subsequently terminated the McCrory lease of the S. Klein store at that location.

Britts Reserves

Through January 31, 1983, McCrory provided an aggregate of \$5,967,000 (before Federal income taxes of \$2,745,000) as a reserve for estimated losses to be incurred in connection with the phase-out of the Britts Department Stores Division. At January 31, 1983, the balance in the reserve consisted of \$258,000 (current) and \$946,000 (long-term).

Other Store Closing Reserves

McCrory had reserves for the termination of certain variety store operations. At January 31, 1983, the balance in the reserve consisted of \$669,000 (current) and \$2,201,000 (long-term).

9. INCOME TAXES

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid and its subsidiaries have been substantially completed for the periods ended January 31, 1978. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amounts accrued in the consolidated balance sheets, in the opinion of management, are adequate to cover amounts which may ultimately be payable.

The provisions for income taxes included in the statements of consolidated income consisted of the following:

	Year Ended January 31,		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Thousands)		
Continuing operations:			
Federal:			
Currently payable	\$13,076	\$ 1,990	\$ 5,457
Deferred	6,647	12,951	7,283
Foreign:			
Currently payable	169	649	3,217
Deferred	-	(58)	(180)
State	<u>8,986</u>	<u>10,819</u>	<u>7,099</u>
	<u>28,878</u>	<u>26,351</u>	<u>22,876</u>
Discontinued operations - Federal:			
Currently payable	(809)	(2,576)	(1,023)
Deferred	<u>809</u>	<u>2,576</u>	<u>1,023</u>
	<u>\$28,878</u>	<u>\$26,351</u>	<u>\$22,876</u>

Available investment tax credits of approximately \$3,600,000, \$2,900,000 and \$3,500,000, respectively, for the years ended January 31, 1983, 1982 and 1981 were applied as reductions of Federal income tax provisions.

Deferred Federal and foreign income taxes relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences attributable to continuing operations and the tax effect of each were as follows:

	Year Ended January 31,		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Thousands)		
Amortization of debt discount	\$ 3,085	\$ 2,041	\$ 2,948
Excess of tax over book depreciation	3,023	1,573	2,672
Disposition of Canadian alcoholic beverage operations	(2,657)	5,848	-
Capital leases adjustment	1,802	1,603	482
Deferred gross profit on instalment sales	834	268	1,314
Net change in reserves for store closings	(269)	1,163	1,231
Other	<u>829</u>	<u>397</u>	<u>(1,544)</u>
	<u>\$ 6,647</u>	<u>\$12,893</u>	<u>\$ 7,103</u>
Total			

Deferred income taxes relating to discontinued operations result from charges to the reserve for phasing out the S. Klein operations.

The provisions for income taxes for the years ended January 31, 1983, 1982 and 1981 amounted to \$28,878,000, \$26,351,000 and \$22,876,000, respectively, representing effective income tax rates of 46.9%, 79.1% and 45.4%, respectively. These amounts are different than the amounts of \$28,310,000, \$15,321,000 and \$23,203,000, respectively, computed by applying the statutory Federal income tax rate to income attributable to continuing operations before provision for income taxes. The reasons for the variances from the statutory rate were as follows:

	Year Ended January 31,		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(Percent of Pre-tax Income)		
Statutory rate applicable to the period	46.0%	46.0%	46.0%
Increase (decrease) in income tax rate resulting from:			
Disposition of Canadian alcoholic beverage operations	-	38.0	-
State tax provision (net of Federal income taxes)	7.9	15.6	7.6
Investment tax credits	(5.9)	(8.6)	(6.9)
Amortization of excess cost of investments over related equities and other intangibles..	3.5	6.5	4.3
Foreign income	(.9)	(4.8)	(1.5)
Capital gains	(.9)	(3.8)	(.1)
Amortization of excess of equity over related cost of investment.	(.4)	(3.4)	(1.6)
Other	<u>(2.4)</u>	<u>(6.4)</u>	<u>(2.4)</u>
Effective income tax rate	<u>46.9%</u>	<u>79.1%</u>	<u>45.4%</u>

10. NET ASSETS HELD FOR SALE TO STOCKHOLDERS AND AFFILIATES

Rapid and certain of its subsidiaries agreed to sell, on or about July 31, 1983, the net assets of ARG, Melville and Plastic Toy for \$13,500,000 in cash (see Item 13 - "Certain Relationships and Related Transactions", paragraph 5, which is an integral part of these financial statements). The difference (\$3,284,000) between the net carrying value of the assets and the expected proceeds of sale less the related taxes has been recorded as a reduction of retained earnings.

Rapid has also agreed to sell two leaseholds for an aggregate price of \$8,700,000 (see Item 13 - "Certain Relationships and Related Transactions", paragraphs 24 and 25, which are an integral part of these financial statements). The sales price will be evidenced by notes in the aggregate principal amount of \$6,715,000, bearing interest at 10%, payable over a 15 year period and the assumption of the payments under a mortgage of \$1,985,000. The notes are to be collateralized by the leaseholds. The net carrying value of the properties, which approximates the sales price, is included in Other Assets - deferred charges, mortgages and sundry in the accompanying consolidated balance sheet at January 31, 1983.

11. DUE FROM STOCKHOLDERS AND AFFILIATES

During the year ended January 31, 1983 and subsequent thereto, Rapid loaned \$25,000,000 to Meshulam Riklis or his wholly-owned entities, \$5,245,000 (includes \$245,000 of accrued interest) to the Riklis Family Corporation and purchased certain obligations of, and made other advances to, AITS, in the aggregate amount of \$4,900,000 (see Item 13 - "Certain Relationships and Transactions", paragraphs 19, 20 and 21, which are an integral part of these financial statements). Of the foregoing amounts, \$21,927,000 was advanced during the period from February 1983 to April 15, 1983, and has been included in current liabilities in the accompanying consolidated balance sheet at January 31, 1983.

During January 1983, Rapid purchased 149 acres of undeveloped land in Connecticut from Meshulam Riklis for \$2,111,500 evidenced by a note bearing interest at 6% per year, payable in 1987, together with the assumption of other related obligations (see Item 13 - "Certain Relationships and Related Transactions", paragraph 23, which is an integral part of these financial statements). The note payable has reduced amounts due from stockholders and affiliates.

12. PENSION PLANS

Rapid and its subsidiaries have various contributory and noncontributory pension plans covering eligible employees. The provisions for pension cost relating to the plans were \$11,515,000, \$11,664,000 and \$10,596,000, for the years ended January 31, 1983, 1982 and 1981, respectively. It is the general policy to fund accrued pension cost as required.

The accumulated combined plan benefits and combined plan net assets for the various pension plans were as follows:

	<u>January 1,</u>	
	<u>1983</u>	<u>1982</u>
Actuarial present value of accumulated plan benefits:		(In Millions)
Vested	\$142.0	\$141.7
Nonvested	9.9	9.5
	<u>\$151.9</u>	<u>\$151.2</u>
Net assets available for benefits	<u>\$144.7</u>	<u>\$133.8</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 9%.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable generally over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1983, 1982 and 1981, \$2,661,000, \$4,135,000 and \$2,820,000, respectively, were provided for such allowances.

13. PROPERTY AND LEASE COMMITMENTS

Property, plant and equipment consisted of the following:

	January 31,	
	<u>1983</u>	<u>1982</u>
	(In Thousands)	
Land	\$ 37,139	\$ 27,874
Buildings, store properties and warehouses	97,010	94,100
Furniture, fixtures and leasehold improvements ..	314,720	307,299
Machinery and equipment	<u>83,003</u>	<u>89,251</u>
 Total	 <u>\$531,872</u>	 <u>\$518,524</u>

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the initial leases generally range from 10 to 40 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rental based upon percentages of sales, real estate taxes, insurance and maintenance costs.

Property and equipment under capital leases was as follows:

	January 31,	
	(In Millions)	
Buildings and store properties	\$ 119.7	\$ 140.1
Machinery and equipment	11.3	25.7
Less accumulated amortization	<u>(95.0)</u>	<u>(119.0)</u>
 Net	 <u>\$ 36.0</u>	 <u>\$ 46.8</u>

The minimum rental commitments on leases of continuing operations (exclusive of common area charges) in effect at January 31, 1983 are as follows:

<u>Years Ending January 31,</u>	<u>Capital Leases</u> (In Millions)	<u>Operating Leases</u>
1984	\$ 10.3	\$ 66.9
1985	9.7	63.3
1986	8.4	60.0
1987	7.6	56.6
1988	6.7	53.4
Thereafter	<u>50.2</u>	<u>305.2</u>
Total minimum payments required *..	<u>92.9</u>	<u>\$605.4</u>
 Less:		
Amount representing interest	32.2	
Amount representing estimated executory costs included in minimum lease payments	<u>3.1</u>	<u>35.3</u>
Present value of net minimum lease payments	57.6	
Less current portion	<u>6.1</u>	
Long-term obligation		<u>\$ 51.5</u>

* Minimum payments have not been reduced by minimum sublease rentals of \$6.4 million under capital leases and \$53.2 million under operating leases due in the future under noncancelable subleases. Contingent rentals which may be paid under certain leases have not been included.

Rental expense relating to all operating leases was as follows:

	<u>Year Ended January 31,</u>		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Millions)		
Minimum rentals	\$77.0	\$72.0	\$65.1
Contingent rentals and expenses ..	25.2	24.1	23.2
Less - sublease rentals	<u>(11.2)</u>	<u>(10.2)</u>	<u>(9.1)</u>
Net	<u>\$91.0</u>	<u>\$85.9</u>	<u>\$79.2</u>

Contingent rentals applicable to capital leases amounted to \$2.1 million, \$3.1 million and \$3.0 million, respectively, in the years ended January 31, 1983, 1982 and 1981.

14. LITIGATION, COMMITMENTS AND CONTINGENCIES

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of antitrust laws, corporation laws, or product liability laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers, former employees and others in which substantial damages are or may be requested. Rapid and its subsidiaries are unable to predict the possible range of damages in those actions where an amount of monetary damages is not specified. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, management, after discussions with counsel, is unable to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis. See Item 3 - "Legal Proceedings", which is an integral part of these financial statements.

At January 31, 1983, Rapid was guarantor of the following: (a) approximately \$24,000,000 of lease payments supporting industrial revenue bonds and approximately \$25,000,000 of other lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; and (b) other obligations of approximately \$5,000,000, certain of which are lease payments of subsidiaries.

Rapid and certain of its subsidiaries make payment to foreign suppliers in the ordinary course of business by means of letters of credit. At January 31, 1983, the amount of letters of credit outstanding aggregated approximately \$28,600,000.

15. OTHER REVENUES

Other revenues - net consisted of the following:

	Year Ended January 31,		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Thousands)		
Interest income	\$23,204	\$11,424	\$ 4,935
Royalties - net	4,617	3,894	1,640
Gain on sale of lease	4,129	-	-
Income of nonconsolidated subsidiaries - net	2,487	2,313	1,356
Gain on cash purchases of subordinated debentures for sinking funds	1,655	89	464
Gain on sale of property and equipment	-	3,978	567
Gain on sale of airplane	-	5,219	-
Gain on sale of distributors	-	-	4,163
Sundry - net	<u>8,644</u>	<u>2,841</u>	<u>1,431</u>
Total	<u>\$44,736</u>	<u>\$29,758</u>	<u>\$14,556</u>

16. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended January 31,					
	1983	1982	1981	1983	1982	1981
	Consolidated			Company		
(In Thousands)						
Maintenance and repairs.	<u>\$ 21,598</u>	<u>\$ 24,005</u>	<u>\$ 22,305</u>	<u>\$ 78</u>	<u>\$ 171</u>	<u>\$ 25</u>
Depreciation and amortization of property, plant and equipment ..	<u>\$ 35,752</u>	<u>\$ 33,901</u>	<u>\$ 32,377</u>	<u>\$ 527</u>	<u>\$ 544</u>	<u>\$ 498</u>
Amortization of intangible assets	<u>\$ 4,751</u>	<u>\$ 4,822</u>	<u>\$ 5,614</u>	<u>\$3,172</u>	<u>\$3,138</u>	<u>\$3,121</u>
Taxes, other than income taxes:						
Property	\$ 14,936	\$ 14,830	\$ 12,892	\$ 2	\$ 5	\$ 5
Payroll	35,041	36,268	32,918	108	152	95
Federal excise, rectification taxes and duties on imported products	181,532	201,919	237,930	-	-	-
State beverage taxes ..	732	1,326	9,275	-	-	-
Other	<u>3,418</u>	<u>4,531</u>	<u>4,206</u>	<u>243</u>	<u>415</u>	<u>439</u>
Total	<u>\$235,659</u>	<u>\$258,874</u>	<u>\$297,221</u>	<u>\$ 353</u>	<u>\$ 572</u>	<u>\$ 539</u>
Rents before reduction for subrentals received from tenants ..	<u>\$104,339</u>	<u>\$ 99,205</u>	<u>\$ 91,258</u>	<u>\$9,332</u>	<u>\$8,066</u>	<u>\$7,077</u>
Advertising costs	<u>\$ 65,134</u>	<u>\$ 70,932</u>	<u>\$ 66,177</u>	<u>-</u>	<u>-</u>	<u>-</u>

17. ACCRUED EXPENSES AND SUNDRY

Accrued expenses and sundry consisted of the following:

	January 31,	
	1983	1982
	(In Thousands)	
Taxes, other than Federal and foreign income ...	\$ 44,823	\$ 48,109
Salaries, wages, commissions, etc.	27,889	31,639
Interest	19,681	19,761
Contributions to employee benefit plans	14,859	15,023
Rents	11,111	10,977
Reserves for store closings	3,444	3,594
Other	<u>34,752</u>	<u>31,094</u>
Total	<u>\$156,559</u>	<u>\$160,197</u>

18. SALE OF CANADIAN ALCOHOLIC BEVERAGE OPERATIONS

Effective October 1, 1981, Schenley sold its Canadian operations to an unrelated third party. The sale price was equal to the book value of the Canadian operations at that date, less an amount representing certain inventory which is to be delivered to Schenley over the next several years. Schenley recognized a nonrecurring loss on this transaction of \$6,337,000, principally attributable to the difference between Schenley's carrying value and the Canadian book value of such Canadian operations, as translated into U.S. currency. In addition, Schenley provided Federal and state income tax with respect to this disposition in the amount of \$9,748,000 principally attributable to the U.S. tax on the previously undistributed earnings of the Canadian operations which were considered to be permanently invested.

19. EXTRAORDINARY CREDIT

Rapid, pursuant to an exchange offer which commenced on December 23, 1982 and expired on March 11, 1983, issued \$13,391,690 principal amount of 15% sinking fund subordinated debentures due 2008 in exchange for an equal principal amount of 7-1/2% sinking fund subordinated debentures due 1985. Rapid recorded an extraordinary gain of \$527,000 (after deferred Federal income taxes of \$449,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

McCrory, pursuant to exchange offers which commenced on December 23, 1982 and expired during February and March 1983 (i) issued \$32,731,000 principal amount of 9-1/2% sinking fund subordinated debentures due 2008 in exchange for an equal amount of 7-1/2% sinking fund subordinated debentures due 1994 (old issue), (ii) issued \$43,491,000 principal amount of 9-5/8% sinking fund subordinated debentures due 2008 in exchange for an equal amount of 7-5/8% sinking fund subordinated debentures due 1997 and (iii) issued \$47,093,000 principal amount of 9-3/4% sinking fund subordinated debentures due 2008 in exchange for an equal amount of 7-3/4% sinking fund subordinated debentures due 1995. McCrory recorded an extraordinary gain of \$13,307,000 (after deferred Federal income taxes of \$11,335,000) on the three exchanges representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount and expense) and the fair value of the debentures issued.

20. INTERIM FINANCIAL INFORMATION (Unaudited)

Year Ended <u>January 31, 1983</u>	Quarter Ended,			
	<u>April 30</u>	<u>July 31</u>	<u>Oct. 31</u>	<u>Jan. 31</u>
	(In Millions)			
Net sales	\$601.4	\$574.4	\$642.5	\$752.4
Gross profit	177.0	168.9	193.6	222.5
Income (loss) before provision for income taxes and extraordinary credit	6.3	(3.8)	12.5	46.5
Income (loss) before extraordinary credit	2.3	(3.5)	6.1	27.8
Net income (loss)	2.3	(3.5)	6.1	41.6

Year Ended January 31, 1982

Net sales	\$604.5	\$615.0	\$702.7	\$723.7
Gross profit	179.1	177.3	215.9	201.3
Income (loss) before provision for income taxes	3.9	(7.5)	18.2	18.7
Net income (loss) .....	.9	(6.0)	(2.0)	14.1

21. PARENT COMPANY FINANCIAL STATEMENTS

The following are condensed financial statements of Rapid-American Corporation (Parent Company):

CONDENSED BALANCE SHEETS

<u>ASSETS</u>	<u>January 31,</u>	
	<u>1983</u>	<u>1982</u>
	(In Thousands)	
Current assets	\$ 33,320	\$ 19,595
Investments and advances	446,678	461,291
Property, plant and equipment - net	28,629	23,305
Intangibles - net	231,632	238,710
Other assets	<u>9,689</u>	<u>6,918</u>
 Total	<u>\$749,948</u>	<u>\$749,819</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	\$102,913	\$ 91,585
Long-term debt, less current maturities and unamortized discount	531,948	541,676
Other noncurrent items	<u>54,738</u>	<u>49,596</u>
Stockholders' equity, less due from stockholders and affiliates (\$38,877,000 and \$5,863,000)	<u>60,349</u>	<u>66,962</u>
 Total	<u>\$749,948</u>	<u>\$749,819</u>

Aggregate principal amount of long-term debt at January 31, 1983 matures as follows:

<u>Year Ending January 31,</u>	<u>(In Thousands)</u>	<u>Five Years Ending January 31,</u>	<u>(In Thousands)</u>
1984	\$ 3,357	1988	\$ 36,011
1985	4,185	1993	145,571
1986	21,863	1998	212,617
1987	3,336	2003	128,084
1988	3,270	2008	223,400
		2013	4,687
 TOTAL	 <u>\$36,011</u>	 TOTAL	 <u>\$750,370</u>

CONDENSED STATEMENTS OF INCOME

	<u>Year Ended January 31,</u>		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
	<u>(In Thousands)</u>		
Net sales and other revenues	\$ 9,749	\$ 6,499	\$ 5,717
Costs, expenses and other deductions	(19,330)	(23,950)	(16,813)
Interest and debt expense	(82,031)	(85,565)	(51,226)
Income tax benefits	<u>40,809</u>	<u>45,383</u>	<u>28,584</u>
 Loss from operations before equity in income of subsidiaries and extraordinary credit	(50,803)	(57,633)	(33,738)
Equity in income of subsidiaries	<u>83,468</u>	<u>64,588</u>	<u>61,304</u>
 Income before extraordinary credit ..	32,665	6,955	27,566
Extraordinary credit - net of tax ...	527	-	-
Equity in extraordinary credit of subsidiary	<u>13,307</u>	<u>-</u>	<u>-</u>
 Net income	<u>\$ 46,499</u>	<u>\$ 6,955</u>	<u>\$ 27,566</u>

CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31,		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
(In Thousands)			
Funds Provided:			
Operations:			
Income before extraordinary credit	\$45,972	\$ 6,955	\$ 27,566
Less - equity in income of subsidiaries	<u>96,775</u>	<u>65,983</u>	<u>62,781</u>
Loss before equity in income of subsidiaries	(50,803)	(59,028)	(35,215)
Cash dividends from subsidiaries ..	58,816	30,473	35,523
Items not currently requiring funds - depreciation and amortization (including debt discount and intangibles) and deferred income taxes	<u>15,499</u>	<u>13,529</u>	<u>7,687</u>
Funds (used in) provided by operations	23,512	(15,026)	7,995
Extraordinary credit:			
Gain on debenture exchange	527		
Deferred income taxes	449		
Decrease in long-term debt	(976)		
Increase in other long-term debt ...	1,198	13,420	147,676
Decrease in investments and advances - net	57,976	48,742	11,424
Disposals of property, plant and equipment	<u>263</u>	<u>132</u>	<u>36</u>
	<u>82,949</u>	<u>47,268</u>	<u>167,131</u>
Funds Applied:			
Due from stockholders and affiliates	33,014	5,863	
Decrease in other long-term debt ...	15,166	7,654	4,249
Acquisition of subsidiary		6,496	
Acquisition/redemption of common, preference and preferred stocks and warrants	11,787	3,624	163,166
Cash dividends	4,005	3,615	11,358
Acquisition of Kenton - net			36,414
Additional consideration for acquisition of subsidiaries			3,035
Additions to property, plant and equipment	6,754	15,442	107
Loans to certain directors and officers - net	3,291	3,150	
Other - net	<u>6,535</u>	<u>578</u>	<u>1,625</u>
	<u>80,552</u>	<u>46,422</u>	<u>219,954</u>
Increase (Decrease) in Working Capital	<u>\$ 2,397</u>	<u>\$ 846</u>	<u>\$(52,823)</u>
Increase (Decrease) in Working Capital by Major Components:			
Current assets	\$ 13,725	\$ (7,066)	\$ (2,664)
Current liabilities	<u>(11,328)</u>	<u>7,912</u>	<u>(50,159)</u>
Increase (Decrease) in Working Capital	<u>\$ 2,397</u>	<u>\$ 846</u>	<u>\$(52,823)</u>

22. SEGMENT INFORMATION

See "Business - Segment Information" in Item 1 for net sales, operating profit (loss) and asset information relating to Rapid's industry segments, which is an integral part of these financial statements. Additional information concerning industry segments follows:

	Year Ended January 31,					
	1983	Deprec- iation	1982	Deprec- iation	1981	Deprec- iation
	Capital Expendi- tures	and Amorti- zation	Capital Expendi- tures	and Amorti- zation	Capital Expendi- tures	and Amorti- zation
(In Millions)						
Retail Merchandising:						
Lerner Stores	\$21.4	\$11.3	\$15.6	\$11.0	\$22.4	\$ 9.9
McCrory Stores	10.4	11.9	15.6	10.5	11.1	10.0
OTASCO Automotive and Home Accessories Stores	7.2	3.4	7.5	2.8	3.4	2.6
Others (including Britts Department Stores in 1981) ....	.1	.1	.1	.2	2.1	.5
Alcoholic Beverages-						
Schenley	4.3	3.4	16.5	4.0	4.4	4.8
McGregor and Others	1.5	3.3	2.5	3.3	2.2	2.2
Net Assets Held for Sale to Stockholders and Affiliates	1.0	.3				
Corporate and other	<u>19.0</u>	<u>2.1</u>	<u>25.1</u>	<u>2.1</u>	<u>11.4</u>	<u>2.4</u>
Total	<u>\$64.9</u>	<u>\$35.8</u>	<u>\$82.9</u>	<u>\$33.9</u>	<u>\$57.0</u>	<u>\$32.4</u>

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS
 AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED
 For the Three Years Ended January 31, 1983
 (In Thousands)

Column A	Column B	Column C	Column D	Column E
Name of debtor (1)	Balance at beginning of year	Additions (Other)	Amounts Collected	Balance at end of year
			Current	Not current
1983:				
Meshulam Riklis and wholly-owned entities (2)	\$ 3,350	\$25,000 (2,112)	\$ 10	\$ 10 \$26,218
Carl H. Lindner (2) ..	2,220			2,220
Riklis Family Corporation (2)		5,245		5,245
AITS, Inc. (2)		4,900		4,900
Specialty Store Group, Inc. (2)	500		25	50 425
Leonard C. Lane	6,260		5	5 6,250
Franconia Associates..	312		32	33 247
Isidore A. Becker	2,050		25	25 2,000
Arie Genger	1,200			1,200
Daniel J. Manella	486	1,000	200	286 1,000
Bernard J. Blaney	600			600
Ben Litwak		300		300
Harold S. Divine	286			286
	17,264	34,333	297	695 50,605
Unamortized Discount..	(4,376)	(978)	(178)	- (5,176)
Total	\$12,888	\$33,355	\$ 119	\$ 695 \$45,429
1982:				
Meshulam Riklis (2) ..	\$ 30	\$ 3,330	\$ 10	\$ 10 \$ 3,340
Carl H. Lindner (2) ..		2,220		2,220
Specialty Store Group, Inc. (2)		500		25 475
Leonard C. Lane	15	6,250	5	5 6,255
Isidore A. Becker	75	2,000	25	2,025 25
Arie Genger		1,200		1,200
Bernard J. Blaney		600		600
Franconia Associates..	341		29	286
Harold S. Divine	286			286
Daniel J. Manella	286	200		486
	1,033	16,300	69	2,867 14,397
Unamortized Discount..	(13)	(4,363)		(144) (4,232)
Total	\$ 1,020	\$11,937	\$ 69	\$2,723 \$10,165
1981:				
Franconia Associates..	\$ 369		\$ 28	\$ 29 \$ 312
Harold S. Divine		\$ 286		286
Daniel J. Manella		286		286
Meshulam Riklis	40		10	10 20
Leonard C. Lane	20		5	5 10
Isidore A. Becker	100		25	25 50
	529	572	68	69 964
Unamortized Discount..	(23)	10		
Total	\$ 506	\$ 582	\$ 68	\$ 69 \$ 951

(1) See Item 13 - "Certain Relationships and Related Transactions".

(2) For financial statement purposes, included in amounts due from stockholders and affiliates in the accompanying balance sheets.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES
INDEBTEDNESS OF AND TO RELATED PARTIES - NOT CURRENT - COMPANY
For the Three Years Ended January 31, 1983
(In Thousands)

Column A Name of Related Party	Column B Balance at beginning of year	Column C Indebtedness of Additions	Column D Deductions	Column E Balance at end of year	Column F Balance at beginning of year	Column G Indebtedness to Additions	Column H Deductions	Column I Balance at end of year
1983:								
SUBSIDIARIES CONSOLIDATED:								
McRory Corporation				\$ 72,719	\$ 91,342 (7)	\$ 22,955 (1)	\$ 22,700 (12)	\$118,406
Schenley Industries, Inc...				19,465	30,475 (7)	21,489 (1)	2,453 (2)	12,600 (12)
							1,955 (4)	16,349
McGregor-Doniger Inc.				16,589	26,035 (3)	5,320 (1)	4,442 (15)	5,000 (12)
							1,992	34,754
Rapid-American Menswear, Inc.				1,522	183 (1)	275 (7)	251 (15)	1,179
RAAM Information Services Corporation					96	611 (5)	250 (7)	26 (1)
							486 (4)	445
View Top Corporation				7,733	2,274 (1)	700 (7)		9,307
Triple Eight Corporation .. Theatre Venture, Inc.	\$ 5,217 1,178	\$ 537 (7) 121 (1)	\$ 392 (1)	\$ 5,362 1,299				
Anvil Brand Inc.					22,122	79 (7)	124 (1)	3,734
							18,343 (12)	
Rapid Distribution Service, Inc.	123	314 (7)	155 (1)	282				
Shenandoah Corporation					3,801	2,126 (7)	924 (1)	5,003
Melville Knitwear Co., Inc.					4,029	558 (15)	838 (1)	
						1,200 (7)	4,889 (16)	
							66	
Donagain Corp.	1,524	57	1,581 (16)					
Plastic Toy and Novelty Corp.	1,372		1,372 (17)					
American Recreation Group..					154	8,714 (16)	1,217 (1)	
							2,566 (7)	
							5,000 (15)	
							85	
Rapid Typographers		76 (1) 501	205 (7)	372				
	<u>\$ 9,814</u>	<u>\$ 1,606</u>	<u>\$ 3,705</u>	<u>\$ 7,315 (18)</u>	<u>\$148,230</u>	<u>\$170,742</u>	<u>\$129,795</u>	<u>\$189,177 (18)</u>

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INDEBTEDNESS OF AND TO RELATED PARTIES - NOT CURRENT - COMPANY

For the Three Years Ended January 31, 1983
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
Name of Related Party	Balance at beginning of year	Indebtedness of		Balance at end of year	Balance at beginning of year	Indebtedness to		Balance at end of year
		Additions	Deductions			Additions	Deductions	
1982:								
SUBSIDIARIES CONSOLIDATED:								
McCormick Corporation				\$30,295	\$ 90,916 (7)	\$25,892 (1)	\$ 72,719	22,600 (12)
Schenley Industries, Inc...				22,289	19,724 (7)	17,700 (1)	5,200 (12)	2,453 (2) 2,101 (4)
McGregor-Doniger Inc.				16,837	4,792 (3)	4,190 (1)	850	16,589
Rapid-American Menswear, Inc.				461	26 (1)	468 (4)	1,035 (7)	1,522
RAAM Information Services Corporation					(194)	601 (5)	43 (1)	200 468 (4) 96
View Top Corporation					(906)	11,469 (7)	2,830 (1)	7,733
Triple Eight Corporation ..	\$ 362	\$ 5,991 (7)	\$ 1,136 (1)	\$ 5,217				
Theatre Venture Inc.	1,153	25 (1)		1,178				
Anvil Brand Inc.					22,660	10 (1)	396	22,122
Rapid Distribution Service, Inc.	84	274 (7)	235 (1)	123		400 (7)	581 (1)	3,801
Shenandoah Corporation						200		
Melville Knitwear Co. Inc..					3,408	2,439 (7)	1,500 (12)	4,029
						305	623 (1)	
Donagain Corp.....	(3,059)	303 (1)	1,000 (12)	1,524				
			3,280 (15)					
Plastic Toy and Novelty Corp.	1,800	251 (1)	679 (7)	1,372				
American Recreation Group..							154	154
	340	11,124	2,050	9,414	98,632	134,724	85,126	148,230
SUBSIDIARY NOT CONSOLIDATED:								
ILC Industries, Inc.	6,014	436	6,450 (13)	-				
	<u>\$ 6,354</u>	<u>\$11,560</u>	<u>\$ 8,500</u>	<u>\$ 9,414 (18)</u>	<u>\$98,632</u>	<u>\$134,724</u>	<u>\$85,126</u>	<u>\$148,230 (18)</u>
10% subordinated notes, net of discount, issued to Kenton Management					\$ 2,560		\$ 2,560 (14)	
6% subordinated notes, net of discount, due Isidore A. Becker					634		634 (14)	
						<u>\$ 3,194</u>	<u>\$ 3,194</u>	

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INDEBTEDNESS OF AND TO RELATED PARTIES - NOT CURRENT - COMPANY

For the Three Years Ended January 31, 1983
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
Name of Related Party	Balance at beginning of year	Indebtedness of Additions	Indebtedness of Deductions	Balance at end of year	Balance at beginning of year	Indebtedness to Additions	Indebtedness to Deductions	Balance at end of year
1981:								
SUBSIDIARIES CONSOLIDATED:								
McCormick Corporation					\$39,672	\$ 44,311 (7)	\$26,188 (1) 27,500 (15)	\$ 30,295
Schenley Industries, Inc...					(2,101)	26,330 (2) 9,583 (7)	9,610 (1) 1,413 (4)	22,289
McGregor-Doniger Inc.					2,915	1,397 (1) 12,525 (3)		16,837
Rapid-American Menswear, Inc.					634	193 (1)	366	461
RAAM Information Services Corporation	\$ 886	\$ 124 (1) 310 (4)	\$ 546 (5) 480 (6) 100	\$ 194				
View Top Corporation	428	858 (7)	380 (1)	906				
Triple Eight Corporation ..	1,078	363 (7)	1,979 (6)	362				
Theatre Venture Inc.	801	537	185 (6)	1,153				
Anvil Brand Inc.					22,496	437	240 (1) 33	22,660
Rapid Distribution Service, Inc.		500 (7)	324 (5) 92 (1)	84				
Shenandoah Corporation						3,782 (8)		3,782
Meilville Knitwear Co. Inc..						3,408 (8)		3,408
Donagain Corp.						3,059 (8)		3,059
Plastic Toy and Novelty Corp.		1,800 (3)		1,800				
	4,093	4,492	4,086	4,499	63,616	105,025	65,850	102,791
SUBSIDIARY NOT CONSOLIDATED:								
ILC Industries, Inc.	5,739	368	93	6,014				
	<u>\$ 9,832</u>	<u>\$ 4,860</u>	<u>\$ 4,179</u>	<u>\$10,513</u>	<u>\$63,616</u>	<u>\$105,025</u>	<u>\$65,850</u>	<u>\$102,791</u>
10% subordinated notes, net of discount, issued to Kenton Management (9)						\$ 2,560 (10)		\$ 2,560
6% subordinated notes, net of discount, due Isidore A. Becker (9)						634 (11)		634
						<u>\$ 3,194</u>		<u>\$ 3,194</u>

Notes:

- (1) Federal income taxes due to or from Parent Company.
- (2) Issuance of 9.73% Note and related interest in exchange for Parent Company 6% debentures held by Schenley Industries, Inc.
- (3) Trade receivable factored with Parent Company, net of cash transfers.
- (4) Rent of premises.
- (5) Services performed for Parent Company.
- (6) Capital contribution of related party indebtedness.
- (7) Net advances.
- (8) Subsidiaries at date of acquisition. See Note 1 to Financial Statements.
- (9) Notes due to related parties included in long-term debt, less current maturities and unamortized discount.
- (10) See Note 2 to Financial Statements.
- (11) Assumed in merger with Kenton Corporation on January 1, 1981.
- (12) Dividends on common stock.
- (13) See Note 3 to Financial Statements.
- (14) Transfer to current liabilities.
- (15) Transfer between Affiliates.
- (16) Transfer to current assets.
- (17) Corporation liquidated into ARG.
- (18) Reconciliation of investments in and advances to subsidiaries as per Parent Company condensed balance sheets:

	January 31,	
	1983	1982
Investments in consolidated subsidiaries	\$ 618,098	\$ 592,372
Net amounts per above	(181,862)	(138,816)
Other	10,442	7,735
	<u>\$ 446,678</u>	<u>\$ 461,291</u>

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS - COMPANY AND CONSOLIDATED
For the Three Years Ended January 31, 1983
(In Thousands)

Column A Descriptions	Column B Balance at beginning of year	Column C Additions		Column D Deductions	Column E Balance at end of year			
		Charged to Costs and Expenses	Charged to Other Accounts					
1983:								
COMPANY:								
Allowances deducted from assets to which they apply:								
Doubtful accounts receivable - trade	\$ 1,185	\$ 823		\$ 477	\$ 1,531			
Doubtful accounts receivable - other (1)	586			489	97			
Total	<u>1,771</u>	<u>823</u>		<u>966</u>	<u>1,628</u>			
Reserves for revaluation of investments in common stock of nonconsolidated subsidiaries (2) ..	416				415			
Total	<u>\$ 2,187</u>	<u>\$ 823</u>		<u>\$ 966</u>	<u>\$ 2,044</u>			
CONSOLIDATED:								
Allowances deducted from assets to which they apply:								
Doubtful accounts receivable:								
Trade	\$ 3,302	\$3,008		\$2,788	\$ 3,522			
Transportation claims	50				50			
Allowances for discounts and allowances	425	13			438			
Total	<u>3,777</u>	<u>3,021</u>		<u>2,788</u>	<u>4,010</u>			
Doubtful accounts receivable - other (1)	1,032	446		652	826			
Total	<u>4,809</u>	<u>3,467</u>		<u>3,440</u>	<u>4,836</u>			
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (2)	6,375	37		1,467	4,945			
Reserves for store closings	<u>13,593</u>	<u>2,507</u> (3)		<u>4,538</u>	<u>11,562</u>			
Total	<u>19,968</u>	<u>2,544</u>		<u>6,005</u>	<u>16,507</u>			
Total	<u><u>\$24,777</u></u>	<u><u>\$6,011</u></u>		<u><u>\$9,445</u></u>	<u><u>\$21,343</u></u>			

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS - COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1983
(In Thousands)

Column A Descriptions	Column B Balance at beginning of year	Column C Additions Charged to Costs and Expenses	Column D Charged to Other Accounts	Column E Balance at end of year
			Deductions	
1982:				
COMPANY:				
Allowances deducted from assets to which they apply:				
Doubtful accounts receivable - trade	\$ 966	\$ 635	\$ 416	\$ 1,185
Doubtful accounts receivable - other (1)	651	—	65	586
Total	1,617	635	481	1,771
Reserves for revaluation of investments in common stock of nonconsolidated subsidiaries (2) ..	416	—	—	416
Total	<u>\$ 2,033</u>	<u>\$ 635</u>	<u>\$ 481</u>	<u>\$ 2,187</u>
CONSOLIDATED:				
Allowances deducted from assets to which they apply:				
Doubtful accounts receivable:				
Trade	\$ 3,578	\$ 2,180	\$ 2,456	\$ 3,302
Transportation claims	149	—	99	50
Allowances for discounts and allowances	152	273	—	425
Total	3,879	2,453	2,555	3,777
Doubtful accounts receivable - other (1)	1,011	264	243	1,032
Total	<u>4,890</u>	<u>2,717</u>	<u>2,798</u>	<u>4,809</u>
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (2)	8,034	141	1,800	6,375
Reserves for store closings	23,274	(621) (3)	<u>\$ 2,380</u> (4)	<u>11,440</u>
Total	<u>31,308</u>	<u>(480)</u>	<u>2,380</u>	<u>19,968</u>
Total	<u>\$36,198</u>	<u>\$ 2,237</u>	<u>\$ 2,380</u>	<u>\$16,038</u>
				<u>\$24,777</u>

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS - COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1983
(In Thousands)

Column A Descriptions	Column B Balance at beginning of year	Column C Additions		Column D Deductions	Column E Balance at end of year			
		Charged to Costs and Expenses	Charged to Other Accounts					
1981:								
COMPANY:								
Allowances deducted from assets to which they apply:								
Doubtful accounts receivable -								
trade	\$ 865	\$ 504		\$ 403	\$ 966			
Doubtful accounts receivable -								
other (1)	586		\$ 68	3	651			
Total	1,451	504	68	406	1,617			
Reserves for revaluation of investments in common stock of nonconsolidated subsidiaries (2) ..	416				416			
Total	<u>\$ 1,867</u>	<u>\$ 504</u>	<u>\$ 68</u>	<u>\$ 406</u>	<u>\$ 2,033</u>			
CONSOLIDATED:								
Allowances deducted from assets to which they apply:								
Doubtful accounts receivable:								
Trade	\$ 4,758	\$ 1,210		\$ 2,390	\$ 3,578			
Transportation claims	149				149			
Allowances for discounts and allowances	101		\$ 51		152			
Total	5,008	1,210	51	2,390	3,879			
Doubtful accounts receivable -								
other (1)	758	231	68	46	1,011			
Total	<u>5,766</u>	<u>1,441</u>	<u>119</u>	<u>2,436</u>	<u>4,890</u>			
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (2)	7,191	843			8,034			
Reserves for store closings	<u>28,694</u>	<u>2,476</u> (3)		<u>7,896</u>	<u>23,274</u>			
Total	<u>35,885</u>	<u>3,319</u>		<u>7,896</u>	<u>31,308</u>			
Total	<u>\$41,651</u>	<u>\$ 4,760</u>	<u>\$ 119</u>	<u>\$10,332</u>	<u>\$36,198</u>			

Notes:

(1) Reserve account has been netted against applicable accounts receivable.
 (2) Deducted from investments to which they apply.
 (3) Includes imputed interest of \$2,074,000 in 1983, \$1,975,000 in 1982 and \$2,026,000 in 1981,
 \$3,013,000 provision for Britts and \$5,609,000 reversal of excess reserves in 1982.
 (4) Transfer of related capital lease obligation and excess credit.

INDEX TO EXHIBITS

Exhibits

Page No.

3(a) Rapid's Certificate of Incorporation, annexed as Schedule C to Exhibit A to the Prospectus forming part of the Joint Registration Statement of Rapid and Kenton on Form S-1⁴, File No. 2-70073 (the "Joint Registration Statement"), which is incorporated herein by reference. *

(b) Rapid's By-Laws, filed as Exhibit 3(b) to the Joint Registration Statement, which is incorporated herein by reference. *

4(a) Indenture, dated as of January 31, 1981, between Rapid and Bradford Trust Company, filed as Exhibit 4 to the Joint Registration Statement, which is incorporated herein by reference. *

(b)**

10(a)(1) Employment Agreement between Schenley and Isidore A. Becker, dated as of August 1, 1975, filed as Exhibit 10(a)(1) to the Joint Registration Statement, which is incorporated herein by reference. *

(2) Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of August 1, 1975, between Schenley and Isidore A. Becker, filed as Exhibit 10(a)(2) to the Joint Registration Statement, which is incorporated herein by reference. *

(b) Employment Agreement between McCrory and Bernard J. Blaney, dated as of July 1, 1980, filed as Exhibit 10(b) to the Joint Registration Statement, which is incorporated herein by reference. *

(c)(1) Employment Agreement between McCrory and Harold S. Divine, dated as of February 1, 1980, filed as Exhibit 10(c)(1) to the Joint Registration Statement, which is incorporated herein by reference. *

(2) Letter Amendment, dated September 29, 1980, to the Employment Agreement, dated as of February 1, 1980, between McCrory and Harold S. Divine, filed as Exhibit 10(c)(2) to the Joint Registration Statement, which is incorporated herein by reference. *

(d) Employment Agreement between Schenley and Howard S. Feldman, dated as of March 1, 1973, as amended, filed as Exhibit 10(d) to Rapid's Form 10-K for the fiscal year ended January 31, 1981 (the "1981 10-K"), which is incorporated herein by reference. *

INDEX TO EXHIBITS - (Continued)

Exhibits

Page No.

(e)(1) Employment Agreement between McCrory and Arie Genger, dated as of February 1, 1980, filed as Exhibit 10(d)(1) to the Joint Registration Statement, which is incorporated herein by reference. *

(2) Letter Agreement, dated as of February 1, 1980, relating to the Employment Agreement of even date between McCrory and Arie Genger, filed as Exhibit 10(d)(2) to the Joint Registration Statement, which is incorporated herein by reference. *

(3) Severance Agreement, dated December 1, 1981, between McCrory and Arie Genger, filed as Exhibit 20(a) to Rapid's Form 10-K for the fiscal year ended January 31, 1982 (the "1982 10-K"), which is incorporated herein by reference. *

(f)(1) Employment Agreement between Rapid and Leonard C. Lane, dated as of February 1, 1974, filed as Exhibit 10(e)(1) to the Joint Registration Statement, which is incorporated herein by reference. *

(2) Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of February 1, 1974, between Rapid and Leonard C. Lane, filed as Exhibit 10(e)(2) to the Joint Registration Statement, which is incorporated herein by reference. *

(3) Severance Agreement, dated February 3, 1982, between Rapid and Leonard C. Lane, filed as Exhibit 20(b) to the 1982 10-K, which is incorporated herein by reference.

(g) Employment Agreement, dated as of November 20, 1982, between Rapid and Meshulam Riklis, filed as Exhibit (i) to Rapid's Form 10-Q for the fiscal quarter ended July 31, 1982 (the "Third Quarter 10-Q"), which is incorporated herein by reference. *

(h) Employment agreement, dated as of February 1, 1981, between Daniel J. Manella and McCrory, filed as Exhibit 10(k) to the 1982 10-K, which is incorporated herein by reference. *

(i) Employment agreement, dated as of July 1, 1981, between Bernard J. Blaney and McCrory, filed as Exhibit 10(l) to the 1982 10-K, which is incorporated herein by reference. *

INDEX TO EXHIBITS - (Continued)

Exhibits

Page No.

(j) Loan Agreement; dated October 15, 1981, between Bernard J. Blaney and McCrory filed as Exhibit 10(m) to Rapid's 1982 10-K, which is incorporated herein by reference. *

(k) Loan Agreement, dated December 1, 1981, between Arie Genger and McCrory filed as Exhibit 10(n) to the 1982 10-K, which is incorporated herein by reference. *

(l) Loan Agreement, dated February 3, 1982, between Leonard C. Lane and Rapid filed as Exhibit 10(o) to the 1982 10-K, which is incorporated herein by reference. *

(m)(1) Loan Agreement, dated August 10, 1982, between Meshulam Riklis and Rapid, filed as Exhibit (ii) to the Third Quarter 10-Q, which is incorporated herein by reference. *

(2) Loan Agreement, dated August 10, 1982, between Meshulam Riklis and Rapid, filed as Exhibit (iii) to the Third Quarter 10-Q, which is incorporated herein by reference. *

(n) Schenley's Employees' Retirement and Benefit Plan, Restated effective January 31, 1976 and as amended through May 24, 1979, filed as Exhibit 10(j) to the Joint Registration Statement, which is incorporated herein by reference. *

(o) McCrory's Plan of Retirement for Directors adopted January 10, 1978, filed as Exhibit 10(k) to the Joint Registration Statement, which is incorporated herein by reference. *

(p) Sale of Stock Agreement, dated February 3, 1982, among Rapid, Meshulam Riklis and Carl H. Lindner filed as Exhibit 10(p) to the 1982 10-K, which is incorporated herein by reference. *

(q)(1) Credit Agreement (the "Credit Agreement"), dated as of June 19, 1981, among McCrory and 10 banks, filed as an exhibit to Rapid's Current Report on Form 8-K, dated July 9, 1981 (the "July 1981 8-K"), which is incorporated herein by reference. *

(2) Guaranty and Pledge Agreement, dated as of June 19, 1981, among Rapid and Chemical Bank, as agent for the

INDEX TO EXHIBITS - (Continued)

Exhibits

Page No.

banks under the Credit Agreement, filed as an exhibit to the July 1981 8-K, which is incorporated herein by reference. *

(r)(1) Line of Credit Agreement (the "Line of Credit Agreement"), dated as of August 12, 1982, among McCrory and four banks, filed as Exhibit (iv) to the Third Quarter 10-Q, which is incorporated herein by reference. *

(2) Guaranty of the Line of Credit Agreement, dated August 12, 1982, between Rapid and Chemical Bank, as agent for the banks under the Line of Credit Agreement, filed as Exhibit (v) to the Third Quarter 10-Q, which is incorporated herein by reference. *

(s) ILC Debt Agreement, dated February 3, 1982, among Rapid, ILC and Leonard C. Lane filed as Exhibit 10(q) to the 1982 10-K, which is incorporated herein by reference. *

(t) Agreement, dated February 1, 1981, between Nassau Business Consultants, Inc. and Rapid filed as Exhibit 10(r) to the 1982 10-K, which is incorporated herein by reference. *

(u) Employment Agreement between McCrory and Ben Litwak, dated as of November 30, 1982. E - 6 ***

(v) Loan Agreement between McCrory and Ben Litwak, dated November 30, 1982. E - 7 ***

11 Omitted (Inapplicable).

12 Rapid and Subsidiaries Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends Combined. E - 8

13 Omitted (Inapplicable).

18 Omitted (Inapplicable).

19 Omitted (Inapplicable).

22 Subsidiaries of Rapid. E - 9

23 Omitted (Inapplicable).

INDEX TO EXHIBITS - (Concluded)

Exhibits

Page No.

24	Omitted (Inapplicable).	
25	Original powers of attorney authorizing Bernard J. Blaney and Stuart H. Aarons, and each of them, to sign this report and any amendments hereto on behalf of certain directors and officers of the Registrant.	E - 10 ***
28	Omitted (Inapplicable).	

* Incorporated by reference.

** For a description of Rapid's other long-term indebtedness, see Note 6 to Financial Statements. Rapid agrees to furnish to the Commission copies of such instruments upon its request.

*** Exhibit Omitted.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS COMBINED

	Year Ended January 31,				
	1983	1982	1981	1980	1979
	(In Thousands, Except Ratios)				
Earnings as defined:					
Income before provision for income taxes and extraordinary credit	\$ 61,543	\$ 33,306	\$ 50,442	\$ 63,333	\$ 78,427
Add: Fixed charges as defined:					
Interest and debt expense (1)	152,168	157,142	114,490	120,127	109,515
One third of annual rents (2)	<u>34,780</u>	<u>33,068</u>	<u>30,419</u>	<u>28,075</u>	<u>25,881</u>
Fixed charges (excluding capitalized interest)	<u>186,948</u>	<u>190,210</u>	<u>144,909</u>	<u>148,202</u>	<u>135,396</u>
Capitalized interest	<u>2,447</u>	<u>951</u>			
Preferred dividend requirements (3)	<u>1,715</u>	<u>3,702</u>	<u>17,235</u>	<u>6,696</u>	<u>3,466</u>
Total fixed charges and preferred dividend requirements as defined ...	<u>191,110</u>	<u>194,863</u>	<u>162,144</u>	<u>154,898</u>	<u>138,862</u>
Total earnings as defined	<u>\$248,491</u>	<u>\$223,516</u>	<u>\$195,351</u>	<u>\$211,535</u>	<u>\$213,823</u>
Ratio of earnings to fixed charges and preferred dividends combined	<u>1.30</u>	<u>1.15</u>	<u>1.20</u>	<u>1.37</u>	<u>1.54</u>

(1) Interest and debt expense:

Per statement of consolidated income	\$155,659	\$161,258	\$117,607	\$122,588	\$111,267
Otasco Credit - net adjustment	<u>(3,491)</u>	<u>(4,116)</u>	<u>(3,117)</u>	<u>(2,461)</u>	<u>(1,752)</u>
Total (to above)	<u>\$152,168</u>	<u>\$157,142</u>	<u>\$114,490</u>	<u>\$120,127</u>	<u>\$109,515</u>

(2) Representative of interest on operating leases.

(3) Consolidated preferred dividends on a pretax basis.

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

The following table sets forth certain information, as of April 15, 1983, with respect to the subsidiaries of Rapid, other than certain subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorpo- rated
Parent (1)		
Subsidiaries of Rapid:		
McCrory Corporation	100%(2)	Delaware
Schenley Industries, Inc.	100%(3)	Delaware
McGregor-Doniger Inc.	100%(3)	New York
Melville Knitwear Co., Inc.	100%	New York
Shenandoah Corporation	100%	Delaware
Plastic Toy and Novelty Corp.	100%	Delaware
American Recreation Group, Inc.	100%	Delaware
Anvil Brand, Inc.	100%	Delaware
Rapid Typographers Company, Inc. ...	100%	Delaware
Rapid-American Menswear, Inc.	100%	Delaware
Rapid Distribution Service, Inc. ...	100%	Delaware
RAAM Information Services		
Corporation	100%	Delaware
View Top Corporation	100%	Delaware
Leeds (Israel) Ltd.	100%	Israel
Theatre Venture, Inc.	100%	Delaware
Triple Eight Corporation	100%	Delaware
Subsidiaries of McCrory:		
Lerner Stores Corporation	100%(4)	Maryland
Otasco, Inc.	100%	Nevada
J. J. Newberry Co.	100%	Delaware
S. Klein Department Stores, Inc. ...	100%	New York
Subsidiaries of Lerner:		
Lerner owns 100% of the voting securities of its 11 subsidiaries, of which nine operate retail stores, and two service retail stores.		
Subsidiary of Otasco:		
Otasco Credit Corporation	100%	Nevada
Subsidiary of Newberry:		
J. J. Newberry Canadian Ltd. (5) ...	100%	Canada
Subsidiaries of Schenley:		
AGE Bodegas Unidas, S.A.	49.3%	Spain
Distributors of New England, Inc. ..	100%	Mass.
Dreyfus-Ashby & Co. Limited	100%	United Kingdom
Dubonnet Wine Corporation	100%	New York

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorpo- rated
Subsidiaries of Schenley (cont.):		
L.E. Jung & Wulff Co., Inc.	100%	New York
Knickerbocker Market Research Corp.	100%	New York
Schenley Affiliated Brands Corp.	100%	New York
Schenley Distillers, Inc.	100%	Delaware
Schenley Enterprises, Inc.	100%	Delaware
Schenley Export Corporation	100%	New York
Schenley Far East, Ltd.	100%	Japan
Schenley International Co. Inc.	100%	Delaware
Schenley Medical Imaging, Inc.	100%	Delaware
Virgin Islands Rum Industries, Ltd.	100%	Virgin Islands
Subsidiaries of Knickerbocker Market Research Corp.:		
Merit House, Inc.	100%	Delaware
World Network, Inc.	100%	Delaware
Subsidiary of Schenley Distillers, Inc.:		
Tennessee Dickel Distilling Co.	100%	Tennessee
Subsidiary of Schenley Medical Imaging, Inc.:		
Digital Imaging Company of America, Inc.	80%	Delaware
Subsidiaries of Anvil Brand, Inc.:		
Almar Manufacturing Corp.	100%	Delaware
The Botany Shirt Company, Inc.	100%	Delaware
Beau Brummell Ties, Inc.	100%	New York
Friedman Marks, Inc.	100%	Delaware
Gilead Manufacturing Corporation ...	100%	Rhode Island
Wonderknit Corporation	100%	New York

(1) For information concerning Riklis Family Corporation and AFC, see "Introductory Note", Item 12 - "Security Ownership of Certain Beneficial Owners and Management" and Note 2 to Financial Statements.

(2) Rapid has approximately 100% of the voting power except for the election of directors where it has approximately 81% of such voting power. These shares are pledged to secure Rapid's guarantee of McCrory's bank indebtedness. See Note 6 to Financial Statements.

(3) All voting securities are pledged to secure Rapid's guarantee of McCrory's bank indebtedness. See Note 6 to Financial Statements.

(4) All voting securities are pledged to secure McCrory's bank indebtedness. See Note 6 to Financial Statements.

(5) Includes 37.4% owned by non-significant Canadian subsidiaries of Newberry.